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PUBLIC LAW 100–198—THE VETERANS' HOME LOAN PROGRAM IMPROVEMENTS AND PROPERTY REHABILITATION ACT OF 1988

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND MEMORIAL AFFAIRS

OF THE

COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

SECOND SESSION

SEPTEMBER 7, 1988

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PUBLIC LAW 100-198—THE VETERANS' HOME LOAN PROGRAM IMPROVEMENTS AND PROPERTY REHABILITATION ACT OF 1988

WEDNESDAY, SEPTEMBER 7, 1988

U.S. House of Representatives,
Subcommittee on Housing and Memorial Affairs,
Committee on Veterans' Affairs,
Washington, D.C.

The subcommittee met, pursuant to notice, at 2:18 p.m, in room 340, Cannon House Office Building, Hon. Marcy Kaptur (chairman of the subcommittee) presiding.

Present: Representatives Kaptur, Patterson, Burton, Smith of New Hampshire, and Davis.

OPENING STATEMENT OF CHAIRWOMAN KAPTUR

Miss **Kaptur**. I'd like to thank all the members of this subcommittee for their continued support, hard work, and attendance during this session, our first committee meeting since coming back after Labor Day.

It is our intent now to proceed with oversight hearings on Public Law 100-198, the Veterans' Home Loan Program Improvements and Property Rehabilitation Act of 1987.

Let me just say that prior to beginning this hearing I also wanted to ask unanimous consent to place in the record an absolutely excellent study that I requested from the Congressional Research Service entitled "Housing Programs of VA and FHA, a Comparison."

What it basically does is trace the history of both programs, how they got started, the loan rates, the loan types, the number of loans that have been made since the program initially started or; the VA program back in 1944, and the FHA program back in 1934.

I thought one of the most interesting statements that was made in the report was that the VA, since the program was first started, had credit totaling $301 billion, in contrast to the FHA program, which had written $365 billion in insurance. So they are very, very similar in the total dollar amounts in terms of the housing market, which had either been guaranteed or insured.

The number of loans is also similar. The VA has approximately 13 million loans, and the FHA has insured 14.2 million loans.

We are a real active player in the U.S. housing market, with the VA having had more than 8.6 million loans repaid and the FHA 8.9 million loans repaid. So, again, we are very close in terms of volume. And, frankly, the VA has a better record on foreclosures, with only 4.5 percent of cumulative loans having resulted in foreclosure, whereas the FHA had 6.3.

I think that this report will be very useful to us as we move forward in looking at the future of this extremely important housing program in our country.

(The CRS report appears on p. 35.)

Miss KAPTUR. I wanted to begin by saying that when we scheduled the hearing today on the amendments that we made to the program, we would have anticipated that many of the provisions in that bill would have been implemented since these changes were made during a crisis period. We are particularly disappointed that not only have some of the provisions been only recently implemented, but that some of the regulations have not yet been written for the bill that we passed last session.

Since I took the Chair last year, the subcommittee has tried to face all of the mounting problems associated with the operation of the VA Home Loan Guaranty Program, and we thought that last year's law made significant improvements to assist veterans in obtaining and keeping quality, affordable housing. It was designed to preserve the program's basic intent, offer creative approaches to some of its present-day administrative and financial problems, and work towards setting it on a sound financial footing for meeting veterans' needs in years ahead.

The overall consensus was favorable when we passed the bill, and its provisions are still viewed as beneficial. It is my sincere hope, therefore, that the Veterans' Administration will speedily implement the rest of the provisions contained in this law as well as the mortgage indemnity proposal once it is enacted.

As this is an oversight hearing, we all look forward to receiving everyone's views and comments at this hearing that may point up the need for additional legislation and improvements down the road.

[The prepared statement of Chairwoman Kaptur appears on p. 33.]

Miss KAPTUR. Before I call up my first witness this afternoon I would like to recognize the ranking minority member, Mr. Burton, for any remarks he may have at this time.

Mr. BURTON. Thank you.

I think you covered it rather well, Madam Chairwoman, and I have no comments at this time.

Miss KAPTUR. Thank you very much.

We would now like to call up our first set of witnesses from the Veterans' Administration: Mr. Robert Vogel, Chief Benefits Director; accompanied by Mr. Keith Pedigo. We welcome both of you. Mr. Pedigo is the Director of the Loan Guaranty Service; accompanied by Mr. James P. Kane, the Assistant General Counsel. We would also like to invite up Mr. Dale Riordan from Fannie Mae, who is the executive vice president, Administration and Corporate Relations.

Welcome. It is good to have you here. Welcome back after Labor Day.

STATEMENT OF R. J. VOGEL, CHIEF BENEFITS DIRECTOR, VETERANS' ADMINISTRATION; ACCOMPANIED BY: R. KEITH PEDIGO, DIRECTOR, LOAN GUARANTY SERVICE; AND JAMES P. KANE, ASSISTANT GENERAL COUNSEL

Mr. VOGEL. Thank you very much, Madam Chairwoman. It is a pleasure to be here today to discuss the operations of the Veterans' Administration's housing programs.

Your invitation letter requested comments on our efforts to implement Public Law 100-198, and on the Rice Center proposal for a temporary refinancing/interest subsidy program for the VA home loans.

With respect to Public Law 100-198, which was signed into law on December 21, 1987, section 2 extended the one percent funding fee for guaranteed and vendee loans until September 30, 1989, and assured that all surviving spouses of veterans who died from service-connected disabilities would be exempt from the payment of the funding fee by exempting those who had eligibility in their own right based on active duty service.

Section 3 increased the guaranty amount to $36,000, established a new two-tiered formula for the calculation of the guaranty, and limited the amount of any manufactured home loan guaranteed to 95 percent of the purchase price of the property securing the loan.

Immediate notice of these provisions of the legislation was provided to our field stations through the computerized electronic mail system. Further information and instructions were sent to the field offices and program participants by an administrative issue published on January 22, 1988. A second notice was published April 7, 1988, which restated the provisions of Public Law 100-198, along with the technical amendments made by Public Law 100-253, the Veterans' Home Loan Program Emergency Amendments of 1988.

Section 4 requires the VA to provide information and, to the extent possible, counseling to veterans in default as to the alternatives available to foreclosure, what VA's and the veterans' liabilities would be in the event of foreclosure, and the availability of counseling. We have revised our computer-generated supplemental servicing letter to include an explanation of the various alternatives to foreclosure.

We are making a concerted effort to emphasize servicing at all VA offices. We have a loan servicing pilot program underway at our Houston Regional Office using funding provided by the Congress specifically for that purpose. Houston's Loan Service and Claims Section was given authority to hire a total of ten new technical and clerical employees, with the understanding that they would work irregular tours of duty in order to reach more borrowers at home.

The program officially began on August 1, 1988, and will be monitored carefully through the receipt of detailed reports from the Houston office until July 31, 1989, its scheduled completion date.

Section 5 of the Act provides additional instructions for computing interest on foreclosed loans. Under the new formulas, VA will exclude from the guaranty claim payment and from the no-bid calculation interest which accrues during periods of forbearance granted at VA's request and when the veteran files for bankruptcy.

This adjustment will only be made if doing so would result in VA offering to acquire the property when the case would otherwise be a no-bid. In cases where VA is at fault for the delay in foreclosure, for example, by failing to provide bidding instructions in a timely manner, VA would also exclude from the no-bid calculation interest which accrues during the period of delay, but will allow such interest in the computation of the guaranty claim. Proposed regulations to implement this section have been drafted and are now in the concurrence process.

Section 6(a) requires VA to make at least 35 percent, but not more than 50 percent, of its acquired property sales for cash in fiscal years 1988 through 1990. During the first ten months of fiscal year 1988, 45.06 percent of VA-owned property sales were for cash.

Section 6(b) requires that VA provide vendee financing for property repairs. On May 9, 1988, stations were informed of the procedures for originating loans to finance repairs of VA-owned properties. This created much interest among real estate brokers and purchasers of VA-owned properties. Section 6(b) also requires a five percent down payment on vendee loans.

Public Law 100-253 later amended that to provide flexibility to the Administrator as to when to require the down payment. The decision is to be based on local market conditions. On April 7, 1988, notice of that provision was provided to our field stations.

Section 7 provides that on interest rate reduction refinancing loans, either present or previous occupancy of the home by the veteran would be sufficient to satisfy the occupancy requirement. If the veteran is on active duty status, present or previous occupancy by the veteran's spouse would satisfy the requirement.

On rate reduction loans, the term of the loan may now exceed that of the original loan by up to 10 years, subject to the maximum of 30 years and 32 days.

This section limits the amount of all other refinancing loans; that is, those under section 1810(a)(5) to 90 percent of the appraised value of the dwelling. Section 8 provides that occupancy of the spouse of a veteran on active duty, in certain circumstances, is sufficient to meet the requirements of the law. Notification of these new requirements was provided to all program participants on January 22, 1988.

Section 9(a) authorizes the VA to sell properties to State and local government agencies and non-profit organizations active in assisting the homeless. We published an administrative issue on March 25, 1988, regarding that. A price discount is available to local government agencies and non-profit organizations who agree to use those shelters primarily for homeless veterans and their families.

Stations report to us no sales have been made so far under that program. Those who have expressed interest in the program indicate that they plan to use funds from the Department of Housing and Urban Development as authorized under the Homeless Assistance Act of 1987.

Section 9(b) authorizes VA to sell acquired properties at a discount to employers who use the properties to train certain veterans through the Veterans' Job Training Act. The issue implementing that program was published on March 25, 1988, but to date no sales have been reported under that program.

Section 10 of the law provides detailed and specific limitations regarding the assumption of guaranteed loans. These include a requirement for underwriting of the assumer, automatic release of liability of the veteran in certain cases, a one-half of one percent funding fee applied to the transaction, and the possibility of accelerating the loan if the requirements are not met.

Proposed regulations to allow lenders to process assumption of the effected loans are being developed. Pending that, VA has taken responsibility for reviewing the credit and income of transferees and notifying the loan holders of the approval or rejection of the proposed transfer.

Section 11 amended section 1831 of title 38 in two areas. In the area of qualifications of appraisers, the amendment required that fee appraisers successfully complete a written test, submit a sample appraisal, submit recommendations from other appraisers, and that there be a certification of an appropriate number of years experience as an appraiser. All of those provisions were either already required or have now been implemented.

In the other appraisal area amended by Public Law 100-98, we are proceeding with the establishment of the standards, procedures, and required regulations necessary to implement a lender appraisal review system. The regulations necessary to implement that program are under development.

Section 12 of the Act exempts VA guaranteed loans from sequestration under Gramm-Rudman and section 13 requires the use of State statistics, if available and reliable, in determining minimum residual income requirements. Field stations and program participants have been notified of those provisions.

Section 14 authorizes VA to sell acquired properties by listing them with real estate brokers. We tested exclusive sales agreements in Texas and California. An administrative issue dated August 9, 1988, explained the policy of the National Association of Realtors regarding the publication of separate lists of government-owned properties for distribution to local NAR members.

As you can see, Madam Chairwoman, the majority of the provisions of Public Law 100-198 have been implemented, with the remainder being in the regulatory process.

We have reviewed the Temporary Refinance/Interest Subsidy Program developed by the Rice Center, and appreciate the time and effort which has gone into its development. We also share the concern of all parties with respect to the current economic situation in the Houston area and its effects on veteran homeowners in the community at large.

The study focuses on the handling of delinquent home loans by VA and the loan holder. It proposes, as a first step, that the amount of the loan delinquency be either capitalized by the holder—which, in effect, constitutes a re-amortization of the loan—or set aside in a separate capital account by the holder.

Our review of the proposal indicates that there are some potential benefits that could be realized from the adoption of the proposal; however, there are additional issues to be considered which the proposal does not address. Among those is the question of whether the subsidy amount would be interest-free and the period over which it should be repaid. Further, it will be necessary to find a means of re-amortizing delinquent loans which will be acceptable to the secondary markets, as well as loan-holders, before VA would be in a position to consider payment subsidies.

We also note that the key variable in any cost-benefit analysis is the projected VA loss on properties which will be acquired in the future. The situation in Houston appears to have changed sufficiently to support the expectation that our performance in this area will, in fact, improve.

Madam Chairwoman, that concludes my summary statement. I would be pleased to answer any questions that you or any members of the subcommittee may have.

[The prepared statement of Mr. Vogel appears on p. 56.]

Miss **Kaptur**. Thank you, Mr. Vogel.

We will hold questions for just a second and wait for Mr. Riordan's testimony.

STATEMENT OF DALE P. RIORDAN, EXECUTIVE VICE PRESIDENT, ADMINISTRATION AND CORPORATE RELATIONS, FEDERAL NATIONAL MORTGAGE ASSOCIATION

Mr. **Riordan**. Thank you, Madam Chairwoman. My name is Dale Riordan, executive vice president with Fannie Mae.

For those of you less familiar with Fannie Mae, we are the largest investor in home mortgages in the United States. We own outright $100 billion of these loans, and we guarantee another $150 billion of loans, representing about 5 million mortgages in the United States.

I thank you for inviting me to discuss with you today some of what we do at Fannie Mae, particularly with respect to acquiring and disposing of properties.

I think that I'd like to do two things today: one is to focus on how we dispose of properties, because I think it has some implications for the requirement in last year's act that the VA list their properties with real estate brokers; and then to comment briefly on the Rice Center proposal.

Even though the housing market is not entirely healthy today, certainly the major negatives in today's market is the overload of foreclosed properties that we and a lot of other investors own and are trying to sell.

Why do we have all of these properties and what happened in these markets? I think most of us are aware of the major answers. Obviously, in the Southwest where the problems are concentrated, it is due to the decline of the oil business, which then precipitated rising unemployment and declining property values.

Fannie Mae particularly—but also others—had invested heavily in what we call the "COLT" States—Colorado, Oklahoma, Louisiana, and Texas—and also in Alaska during the late 1970's and early 1980's. In fact, we're still a major investor in Texas.

But when Texas began to experience its problems in the early 1980's we found ourselves getting a lot of properties back. In fact, we acquired nearly 6,000 properties in 1984, and that grew to almost 17,000 last year.

Now, fortunately, we are in a position of being able to sell more properties than we acquire, and we think it is because of the way we have managed the acquisition and disposition process.

Needless to say, we don't want to own foreclosed homes. Our business is to keep people in homes, not to sell homes. But we are going to get foreclosed homes.

In looking at how we implement our disposition strategy we have three obligations: the first is to minimize the number of homes that we get back—the so-called "front end" of the process, or underwriting. We have made a number of substantial alterations in our underwriting requirements since 1985, and we feel that the loans that we're getting now, whether they be in Texas or any other part of the country, will not experience the same kind of foreclosures that we have had in the past.

The second is, given the fact that we have a great deal of properties coming back, we had to organize a business unit to manage the properties and then to sell them. Until 1984, we did not get many properties back. When properties were foreclosed, in most cases, if they were insured, they were sold by the private mortgage insurance company because a profit could be made on the sale. Therefore, it made sense for MI companies to pay us the guarantee fee, keep the property, sell it themselves, and make a profit on the sale.

Since that time, that has not been the case. What has happened is that the MI companies have simply turned over the properties to us, paid us the guarantee, and we have had to sell the properties. So it is sort of the conventional market version of the VA "no bid."

So we have had to put together an in-house staff—which now numbers approximately 200 people across the country—to do nothing but to manage and to sell these properties.

The third, and I guess the most important thing that we find ourselves trying to do, is to minimize the loss on the sale of these properties. We have found, since the very beginning, that the best way to do this is to sell these homes as quickly as possible and not to hold them on the market, because of the high cost of managing and holding these properties.

We have developed several ways to accomplish this goal. Our sales program is maintained primarily through real estate brokers. We have sold homes at auctions before. We still sell approximately 10 percent of our homes in auctions. But clearly the most essential reason for our success in selling more homes is because we have dealt directly with real estate brokers. The other reason is because we repair all of our properties in order to get a better price, and also to maintain the neighborhoods in a somewhat better condition.

As I said, I know the VA was instructed by last year's act to begin listing properties with real estate brokers, and I guess we can't say enough about the fact that listing these properties with real estate brokers has been the key to selling these properties quickly—quicker than in an auction, in many cases, and also with a better return to us in terms of price.

We strongly support the effort with the realtors. We do that in a number of ways. We figure that we need to spend a little money in order to make a little money, so we have done a number of things. For instance, we have a toll-free telephone line where any broker in the United States can call 24 hours a day to find any property that is up for sale that is owned by Fannie Mae. We have put together a lot of marketing materials, collateral materials, hand-outs, brochures, etc., that brokers and ultimate customers can use in deciding whether or not to buy a property that has been foreclosed, and we also sponsor frequent advertising, both on radio and in newspapers. We spend almost $2 million a year advertising foreclosed properties for sale, and we feel that the return on that is rather significant.

The key is to build flexibility into the sales program. For instance—and I guess one of the provisions in the bill you successfully steered through the subcommittee, Madam Chairwoman, just a few minutes ago, was the lease-purchase program. We operate a lease-purchase program, primarily in Alaska right now, but we have also done it in other areas where we have a concentration of properties, mainly in Houston and in Oklahoma.

Basically it allows someone to get into a home—and this is describing more the Alaska program now—for as little as $500, and then they can apply part of their monthly payment to the purchase of the home. This has worked well, again, in areas where we have a high concentration of foreclosed properties.

We have found, also, that while some of the oil States seem to be bottoming out right now, we expect another couple of years before we really can predict significant improvement. However, we do think that we're at the point now of rounding the bend, so to speak, in handling these properties.

During this period of high foreclosures there have been a number of proposals that have been made to try to get at the problem from the beginning; that is, to prevent the foreclosure in the first place.

One thing that we have been involved with over the last several years is home ownership counseling. There is an organization called HOPE—the Home Ownership Protective Effort—which has a few entities around the country. One of them happens to be in Texas, where it is most needed. Basically HOPE provides sort of a full service of counselling and support services to people who have become unemployed and helps them to try to retain their home if it is at all possible to retain their home. So far—at least in the last several years—they have had a very impressive record.

Others have suggested different ideas. The Rice Center proposal is one of those. We have looked at it carefully, and we have a couple of concerns about it.

One, it doesn't appear to be intended only for those borrowers who are in financial distress. We think it ought to be if this would ever become law.

Secondly, we found—sometimes painfully—that some foreclosures cannot be prevented by lower payments. Some foreclosures are going to happen anyway, and all you do is to delay the process. If you are in a down market the loss is going to be greater in any event. Though it sounds somewhat cruel, sometimes the most humane thing to do is to let the foreclosure take place right then, as opposed to two or three years from now.

Also, when you look at these payment adjustments, they need to be stylized. We have found that in many cases, if the property is going to be successfully restored to the homeowner and not foreclose", interest rate declines of two percent to three percent [illegible]ly do the trick. If it takes a lot more than that, then you run the risk of just delaying the foreclosure and suffering higher costs later on.

Also—and I'm not nearly an expert in the Ginnie Mae security, but I'm obviously a little bit more familiar with Fannie Mae—as far as the security is concerned you have to be very careful about what you do to encourage loans to be refinanced out of the security, because we have certain fiduciary obligations to security holders that can be broken if we take certain unusual steps in order to have properties continue to pay, but at a somewhat lower rate. You just have to be very careful in structuring a program because of the indentures that surround any mortgage-backed securities program. I think that would be the case with the Ginnie Mae as well, but I'm not sure.

We have looked at different ways to do this and have actually come up with the bare bones of an alternative which, obviously, is not fully spelled out, but which we think could work, and that is to use a tax-exempt bond program to help VA homeowners avoid foreclosure.

It would work rather simply. You would identify the borrowers who are in danger of being foreclosed upon and then determine whether or not refinancing the loan would make a difference. Again, in some cases it would not.

Then you could have a local or a State housing finance agency actually float a bond either for the amount of loans that you have identified, or for even a greater amount, and to use that tax-exempt financing, which would be less expensive, to re-finance these homes at a somewhat lower rate.

We think that the cost of doing it this way would be significantly less than the present way that things are being done, and once these loans were refinanced and guaranteed by the VA and then placed in the Ginnie Mae security it would be a triple-A security, so you would have the lowest possible rate you could get.

Obviously this would be something that would need to be worked out with the Ways and Means Committee since they have primary jurisdiction over the mortgage revenue bond program, but if there was any interest in that approach we would certainly be happy to help work with you and your staff on the details of that.

There is one problem with this proposal. There is a strong preference, in fact I think a requirement, that only first-time home buyers, or families who have not owned a home in the last three years may participate in the MRB program. This restriction would have to be altered, or at least some type of set-aside would have to be created for a program like this. That would be a little bit more complicated, but it could be done.

In closing, I'd like to thank you for this opportunity to share our experience on the disposition side as the acquisition and disposition of these properties continue to be a costly problem for all of us. As I said, we have probably been in this area earlier and longer than anyone else, and we have found—through a lot of mistakes—that the best way to do this is to handle the sales primarily through real estate brokers, and we are now in a position, as I said, of turntially during the next several years.

Thank you.

[The prepared statement of Mr. Riordan appears on p. 70.]

Miss KAPTUR. Mr. Riordan, I want to thank you for helping us on this, as well as other requests that we have made of you and of Fannie Mae. You have been excellent to work with, and I think that once we finish this session of Congress we are going to be looking at some type of Ginnie Mae alternative that may model itself on things that you are doing over there at Fannie Mae. We look forward to continued conversations in this regard.

Mr. RIORDAN. My pleasure.

Miss KAPTUR. You have been wonderful.

I want to say to you, Mr. Vogel, if I could: I'm trying to get a handle on some numbers here, and you or one of your staff may be able to help me out.

Your testimony is fairly technical, and we are interested in both the letter, as well as the spirit, of the law that we enact up here.

One of the criticisms that was levelled against our bill last year was that it would cause a decline in the number of loans that were guaranteed. I'm wondering if you might have in the volumes that you brought with you today some comparison of loan volume in this fiscal year as compared to last fiscal year and the prior fiscal year. And if you might give us those numbers for the record as a basis of beginning the conversation.

Mr. VOGEL. I'll ask Mr. Pedigo to provide that for the record.

Miss KAPTUR. Fine.

Mr. PEDIGO. Yes, Madam Chairwoman, I do have some figures through July of 1988.

Miss KAPTUR. Through July of 1988? So that would be from January through July?

Mr. PEDIGO. Well, fiscal year figures from October 1, 1987.

Miss KAPTUR. October through July? Okay.

Mr. PEDIGO. Through July of 1988. This would be loans closed.

Miss KAPTUR. Loans closed?

Mr. PEDIGO. Through July of this year: 195,637.

Miss KAPTUR. That was 195,637?

Mr. PEDIGO. Yes. In the previous fiscal year. For fiscal year 1987 through July 31 it would be 408,000.

Miss KAPTUR. That's 408,000?

Mr. PEDIGO. Yes—408,491.

Miss KAPTUR. That would be for the entire fiscal year, then?

Mr. PEDIGO. No, that would be for that same period.

Miss KAPTUR. For the same period?

Mr. PEDIGO. In fiscal year 1987 compared to 1988. Let me comment on those figures.

Miss KAPTUR. All right.

Mr. PEDIGO. The fiscal year 1987 figure contains about 32 percent interest rate reduction refinancing loans, which we were getting a lot of back in——

Miss KAPTUR. Thirty-two percent is refinancing?

Mr. PEDIGO. Yes. In an ordinary year such as we are in now we would probably have no more than three to four percent interest rate reduction refinancing loans. So to get a more realistic comparison you should probably take off about 28 percent to 30 percent from that 408,000 figure.

Miss KAPTUR. So we'd still be a little bit under in terms of the number of loans guaranteed compared to prior years. Now, does the refinancing take into account all of the lower interest rate? When you talk about 32 percent of that being refinancing, that accounts for all of the interest rate differentials between the two fiscal years?

Mr. PEDIGO. Well, the 32 percent would be the number of loans that were made in fiscal year 1987 that were strictly for the purpose of refinancing an existing VA loan to get a lower interest rate.

Miss KAPTUR. Now, the interest rates have been slowly creeping up. Has that had an impact on the number of loans that have been originated and guaranteed?

Mr. PEDIGO. Yes, we believe that that has made a definite impact on volume. It has had an impact industry-wide in volume.

Miss KAPTUR. In your judgment, if you were to look at the number of loans guaranteed for the period you have given me through this year, and you take into account the higher interest rates and the refinancing both, would you say that we are on par with prior years in terms of the numbers—the volume?

Mr. PEDIGO. It is very difficult to say. I would say that we are not too far off of what we would have in a normal year. But as far as being able to factor out the impact of the reduced guaranty, it's really difficult at this point.

Miss KAPTUR. I know it's difficult, but I wanted to ask your judgment. This has been real helpful for members of the committee.

I'm going to ask you a harder question, because you don't have these numbers in front of you, about the CRS study that I referenced. When we look at the past history—and they only gave it to us through 1978, and I'd really like it earlier than that because I've been looking for prior recessions and the impact of loan guarantees and originations during recession—something has happened during the 1980's that preceded my chairing this subcommittee. Something is happening between the number of loans guaranteed by VA and those insured by FHA.

Years ago—if you looked at 1978, for example—if you look at the volume on FHA originations, the insurance on those originations, it was about $14.6 billion that year in 1978. VA guarantees were about $16 billion. So in some ways we are fairly close. If you look at 1979, FHA was at about $20 billion and VA was at about $18.8. They were still fairly close. They were tracking one another.

Then, in 1980, with recession and everything else beginning there, FHA was $15 billion, VA was $12 billion, a little bit less. And that was true in 1981 and 1982 with interest rates higher. By 1982 we had FHA insuring about $11.5 billion, and VA about $7.7 billion in guarantees.

But then, in 1983, we have an FHA volume of about $28.8 billion, and VA is $10 billion under at $18.9 billion. In 1984 the relationship continued to change—now, whether that was refinancing, I don't know but that was a substantial difference.

If we look at 1985, FHA was at $28.4 billion, VA was at $15.6 billion—almost half—whereas before they had been at par and almost equal. It was almost half.

Then, in 1986, FHA was at $62 billion and VA was at $30 billion—literally half.

Then, in 1987, FHA was at $51 billion and VA at $21 billion—less than half.

This is why I was curious about these years' figures. Now, what is happening here over the long term as far as the relationship between those two programs? Since they had been so equal over the years, what really happened during this decade, figuring that both programs would have been subject to sequestration, both programs would have undergone all kinds of cost cutting, what is going on here?

Mr. PEDIGO. I guess I'm going to have to speculate on this one.

Miss KAPTUR. I hope you can help me, because I've been thinking about it since I read this report.

Mr. PEDIGO. I guess there could be any number of factors that would result in this recent disparity. One problem that FHA has had over the years is a more strict limitation on the loan amount. From time to time the limit on the loan amount has drastically lagged the inflationary spiral in the economy to the point where in some years FHA has been effectively precluded from making loans in some high-cost markets because the loan limit won't reach to the average house.

Now, perhaps in some of those years where the VA was equal to or possibly in excess of FHA as far as loan volume, that could have been one of those years where the FHA limit was holding that program down.

There is also another possibility that could explain why FHA has taken off in the last three to four years. The private mortgage insurance industry has taken a beating in the last six to eight years as a result of the economic dislocations in the Midwest, and subsequently in the Southwest. As a result, they have tightened their standards and have quit making loans that they previously would have made. So some of those borrowers have probably opted to go to the FHA program, which historically has been—at the low end, anyway—in competition with the private mortgage insurers.

Miss KAPTUR. Mr. Riordan, I wonder if you wanted to add anything or you had any comments on this particular discussion?

Mr. RIORDAN. I think that, first of all, the normal market forces won't explain the difference, because they ought to affect FHA and VA directly.

I don't think it is the limit, because the limit didn't change until 1987. But I do think it had a lot to do with PMI's in terms of capacity and in terms of underwriting changes which were sometimes rather dramatic.

For example, at certain times in the mid-1980's some of them changed their requirements to the extent that they weren't insuring very many loans at all in Texas.

However, some have recently redeveloped, so to speak, their capacity because they are mostly owned by parents. They are not separate entities. Some of them have very rich parents. There are only about four or five that account for almost 90 percent of the market today, and they have been recapitalized over the last several years. That ten explained the fluctuation back and forth.

The main reason in the overall market, or one reason that some may think of, would be that when rates are lower ARM's are more popular, and FHA is most recently getting into ARM's, but it wouldn't explain the drastic movement because it is not a substantial part of their business.

Miss KAPTUR. Would not the changes in the PMI market also affect the VA? Would that pressure the VA to guarantee originations, or no? It just seems so significant to me.

Mr. PEDIGO. May I comment on that, Madam Chairwoman?

Miss KAPTUR. Yes.

Mr. PEDIGO. I think that any borrower who is eligible for a VA loan would probably opt to go VA rather than PMI, regardless of the state of the industry with respect to PMI's. So I don't think there would have been as much of a flight from PMI's to VA as there was from PMI's to FHA because the VA program, from a borrower's standpoint, is much more attractive to begin with, so any borrower who had VA eligibility would never have gone to PMI, or at least in most instances would not have gone to PMI, even when PMI had more liberal qualifying standards.

Miss KAPTUR. You know what's interesting about this: if you look at the volume of VA it has steadily increased, but I would say conservatively. You're not decreasing your volume per year, but it has very conservatively increased.

The FHA has so significantly increased. I'm wondering if they won't have a greater rate of foreclosure down the road. I don't know. But there has been a massive change over there. So I'm asking myself the question: have we not kept pace, or have they done something where they're going to shoot themselves in the foot five or ten years down the road? I don't know the answer to my own question, but something is going on here.

Mr. PEDIGO. There is one more possibility here, and that is the veteran population. There is a decline in the veteran population. During the 1970's we were serving the bulk of the Vietnam era veterans. They were buying their homes, and this went on into the early 1980's.

But in the last three to four years I think the argument could be made that the bulk of the Vietnam era veterans have purchased their first home, so we could expect to see a natural decline in the number of veterans out there who would be in the market for a home.

Miss KAPTUR. Do you think that the fact that the VA doesn't have as an attractive an adjustable rate mortgage program could be a factor?

Mr. PEDIGO. I believe that it is. I have been told by people in the industry that it is a factor, and I am convinced now that it is.

Miss KAPTUR. This is the kind of information—this is the kind of hearing that is supposed to be more discussion and ideas rather than technical. Yes, Mr. Riordan?

Mr. RIORDAN. I think on that latter point, Madam Chairwoman, about 70 percent of the loans made today are adjustable.

Miss KAPTUR. Seventy?

Mr. **Riordan**. Yes, 70 are adjustable, as opposed to fixed. And a fixed rate—a conventional fixed rate, anyway—today would run you probably 10½ percent and two to three points on the street; whereas, if you get an adjustable loan, depending on whether or not it is discounted in the first year to one year as opposed to three year, an average would be closer to about eight percent for the first year. So the difference between eight and 10½ is significant in terms of affordability, particularly for a first-time buyer.

So if there were an ARM that VA had, they would probably garner business. No doubt about it.

Miss **Kaptur**. Well, that's a very helpful comment. Those comments are very helpful to us.

You know, one of the other things we're dealing with here is the difference between a peace-time armed forces and the Serviceman's Readjustment Act of 1944. Times have changed a lot since the 1940's, and I, personally, as one member of the committee, am very interested in the changing nature of our conventional forces and the fact that over half of our forces are really now on guard and reserve. When we look at the eligibility of those forces for home loans, they obviously don't have them.

But I don't know really what the numbers are—I know we have an aging veterans' population. I haven't really taken a look at which of those are in the home-buying age groups and the demographics of that. That would be an interesting set of statistics for us to put our fingers on.

I just got back from a National Guard and Reserve camp in my own section of the country and I am amazed at what is happening to our conventional forces. I support what is going on, but I think we have to make sure that our benefits programs parallel what is happening in the Department of Defense, and I'm not sure if we are at this point, based on the significant changes that have occurred there just since the 1980's. Most of the young people that I saw in their 20's and early 30's were all potential home buyers. They were in that age category, and they currently aren't eligible unless they've been in active service prior to entering the Guard and Reserve.

Anyway, that's something that is going through my mind as a member of this committee: to make sure that we make the benefits programs available to those who are actually in service to this country.

I wanted to also ask Mr. Vogel, on section 14 of the bill, the advertising and multiple listing service—now, Mr. Riordan has testified that this was really significant in terms of moving properties. Your testimony merely states that you had tested the exclusive sales agreements at regional offices in California and Texas, and you issued an administrative paper dated August giving some directions as to how multiple listing services would be used. What actually is happening? What is happening in San Francisco and Dallas and Chicago and Cleveland on multiple listing services?

Mr. **Vogel**. I'm going to turn this over to Mr. Pedigo to answer, Madam Chairwoman, but let me make the point that we've always listed the bulk of our sales through real estate brokers. For those who subscribe to and obtain our listings we do have a program that sounds reasonably parallel to that which Mr. Riordan described when he talked about 800 toll-free numbers. We have a computerized access where brokers can dial up and access property listing maintained on an extensive computer inventory that we have and get information about properties. We have certainly made access better than it had been. They don't need to deal off a piece of paper. They can determine what we have for sale and where it is and the price and the characteristics of the property by a computer dial up.

With respect to multiple listing service—

Miss KAPTUR. Excuse me. Is that by region, or is that a national number?

Mr. VOGEL. That's a national program. I don't think that all 49 of our loan guaranty divisions have it in place because it doesn't seem to be either the necessity or receptivity to that in some parts of the country. It definitely is being used in those areas where we have large volumes of properties for sale and large inventory.

Mr. Pedigo can talk a little bit about multiple listing services.

Miss KAPTUR. All right.

Mr. PEDIGO. Just one additional comment on what Mr. Vogel said about these computerized bulletin boards. It is a national policy, as he said, but the data bases are local. Each office has in its own computer the properties that are available for sale in that area. So any broker with a PC and a modem can access the VA data base and, on a moment's notice, know exactly which properties are for sale, which properties have offers on them, plus obtain policy directives that we put out from time to time.

Miss KAPTUR. You know what I had one of my staff in my district office do over August? I sent him out with a Polaroid camera. First we got a listing from the Cleveland regional office of all properties in the foreclosed inventory in Toledo, Ohio. He took with him a Polaroid camera and a map.

I told him I wanted him to bring me back a picture of every VA house, every address, and with an "X" on the map, and then I asked him to rate these properties from a visual look, and we found out some very interesting things.

A number of the properties were in very good condition. In fact, the majority of them were—at least to the eye. Several were condemned.

We entered into a very interesting set of discussions between the VA in Cleveland and the local inspector's office of our Building Inspection Division in the City of Toledo.

I still don't know if when my local city government condemns a property and it has to be raized, whether they can initiate action on the destruction of that property so it isn't an eyesore in the neighborhood anymore and then bill the VA, and whether the VA will pay that bill up to a certain limit, or whether the local government has to somehow work with the VA to bring that property up to standard.

But then when you want to get some action at the local level, the authority as to who is to do what is very confused.

I now have to get my staff involved in our community to try to figure out what the VA's role is, what the local city government's role is, what the broker's role is, who owns the property and, what the bank's role is. It has been a wonderful experience. It has been a real test.

My fear is that once we get ready and say we can get all these properties taken down someone will want to buy them or something will happen that will mess everything up.

But it seems to me that your records are pretty good, because we got the records out of the VA in Cleveland. But then as to how you move the inventory, that got very confused. Nobody knew who was responsible for the property.

Mr. PEDIGO. Well, the responsibility, if it is a VA property, of course, rests with the VA. But our eyes and ears in the field are the management brokers that we hire to provide management services on those properties. And, in addition to those management brokers, who are not VA employees, we do have VA employees who are assigned to certain territories, and there would be one employee who would have, for example, the City of Toledo, as well as probably some of the surrounding counties, and it would be his responsibility to make sure that the properties in that area, once they are conveyed to VA by the lender, are properly secured, repaired if necessary, and marketed in an expeditious manner.

Miss KAPTUR. Mr. Pedigo, if you had a property that was boarded up, condemned—the wiring didn't work, the plumbing didn't work, may have even been burned out on the second floor—how do you get rid of that property?

Mr. PEDIGO. Well, there are any number of ways that we could approach the sale of that property. If it has been cited by the city for condemnation, we may decide that it is not cost effective to repair that property and we might choose to demolish it ourselves. Or we may—

Miss KAPTUR. Do you work with the city government when you do that?

Mr. PEDIGO. Well, the city government is required to treat us just as they would any other homeowner. If a property is condemned, they are supposed to notify the owner of record. So if that is the VA, then we should get a notice from the city or the county that that property is due for condemnation.

Now, once we get that notice, then we have to decide which of several options we want to exercise. We could either go ahead and demolish it ourselves, or we could choose to sell it in its "as is" condition to some purchaser who might be willing to put a little money in it and bring it up to code. Or we could choose to repair it ourselves and then put it on the market. We would not opt for the latter unless we were convinced that we could recover the cost of those repairs in the sale of the home.

Miss KAPTUR. Now, every property, then, has some broker responsible for it, so there must be somebody there that is being paid a fee, even if the property is condemned.

Mr. PEDIGO. That's correct.

Miss KAPTUR. All right.

Going back to the multiple listing question just for a second: you have good records in your regional offices of where these properties are, but it is up to the broker to advertise in the local multiple listing service?

Mr. PEDIGO. Well, we take primary responsibility for advertising.

Miss KAPTUR. You as central office?

Mr. PEDIGO. No. The VA regional office.

Miss KAPTUR. Regional office?

Mr. PEDIGO. We have provided instructions to our regional offices that we expect them to advertise at whatever level is necessary.

Miss KAPTUR. How do you know they do it?

Mr. PEDIGO. We monitor the level of advertising through our quality assurance program, which consists of periodic review of work that is completed in our field stations through a review of reports that we receive in the central office, as well as individual case files that we periodically call in. And then about once a year we send a team of specialists from the loan guaranty program out to the regional offices to conduct a one-week, on-site audit.

By doing this we are able to assure ourselves that the proper level of advertising is being carried out.

Miss KAPTUR. And they are under budget constraints?

Mr. PEDIGO. They are really under no budget constraints with respect to advertising. The advertising money comes out of the loan guarantee revolving fund, which, while it has teetered on the edge of disaster for the last couple of years, usually has sufficient money in it to allow stations to advertise.

Miss KAPTUR. How often would they advertise in the local realtor's guides—the things you get in the supermarket for free, or the bank? What is your goal?

Mr. PEDIGO. We really don't get that specific as to how a station should advertise. We tell them to use whatever advertising tools their competitors are using in that area. So that would typically be a newspaper advertisement that would appear at least on weekends, probably in the real estate section of the paper. Plus, there are some radio spots that some of our offices buy, and even billboards that they occasionally buy space on.

And, in addition to the advertising that we do, we encourage our sales brokers to advertise. We find that particularly those sales brokers who are interested in specializing in the sale of VA properties will actually advertise in the media. They will even use city buses to put up placards in the buses that VA properties are available for sale.

So we feel that we advertise at the same level that our competitors are advertising at. We don't think we take a back seat to anybody in that regard.

Miss KAPTUR. I listened to what you said.

Let me ask you one final question before proceeding to the next set of witnesses, and that has to do with the 20 percent discount program on foreclosed properties, 9(a) and 9(b). You mentioned in your testimony that no sales have been made so far under this program. I thought I had read a press release where the City of Philadelphia had made an inquiry of the VA. Could you enlighten me a bit more on what is being done to move these potentially discounted properties to various local non-profit groups?

Mr. VOGEL. The Philadelphia experience is indicative of what the community and the local government can and will do. We'll sell up to 50 properties to the City of Philadelphia this next year that they have identified for the use of homeless and homeless families. All sales will be for cash. As a matter of fact, I think some 10 or 12 have already been conveyed, and they were appropriately discounted.

As to the source of the monies that the City of Philadelphia used, I don't know where the money came from. Frankly, it was green, and it came to the VA, and we conveyed the property.

It could have been, in fact, money available under a HUD program. It likely was. I don't know that. I asked that question this afternoon and I haven't gotten an answer. But, in fact, they were conveyed to the city, and more will, and that is happening across the nation. I am not suggesting the numbers are very large, because with respect to the provisions of the law that we're having oversight on, we really have not seen the application of the direct principles of that law in the conveying of homes to the homeless, or groups interested in helping shelter the homeless.

Miss **Kaptur**. Do you happen to know if, in that Philadelphia situation, there were section eight certificates made available in that particular program through the Philadelphia City government?

Mr. **Pedigo**. We're not certain, but we were told by our Philadelphia office at one point that it appeared that the city was going to seek HUD grant money to purchase these homes. Now, we don't know at this time if, in fact, that is what was used when the purchases were made, but that is what was indicated to us at an earlier point in time.

Miss **Kaptur**. If there is anything I could to do encourage you, through your public relations office, to describe that Philadelphia experience getting that to organizations like the U.S. Conference of Mayors and the National League of Cities and some of the community development reporters and a lot of the housing entities and groups interested in housing I think it would help the program move along. I don't know if that is where you sent that press release or not. I was certainly happy to receive it, and I think you could help the program to move by publicizing even that example a little bit more if, in fact, there is a deal that is consummated shortly.

Mr. **Vogel**. We would be pleased to provide more information on that and others that come to our attention.

Miss **Kaptur**. All right.

We thank you very much for appearing today. Do any of you have any further statements you would like to make at this point?

[No response.]

Miss **Kaptur**. All right. Thank you very much.

I'd like to call the next set of witnesses if we could. Mr. Richard Schultz, Associate National Legislative Director, Disabled American Vets; Mr. John Bollinger, Associate Legislative Director, Paralyzed Veterans of America; Mr. James Magill, the Director of National Legislative Service, Veterans of Foreign Wars.

We welcome you gentlemen back and thank you for working with us so consistently on these important programs.

Mr. Schultz I think is the first one listed. We will let him be the first hitter in this series.

STATEMENT OF RICHARD F. SCHULTZ, ASSOCIATE NATIONAL LEGISLATIVE DIRECTOR, DISABLED AMERICAN VETERANS

Mr. SCHULTZ. Thank you, Madam Chairwoman.

On behalf of the more than 1.1 million members of the Disabled American Veterans, I would like to thank you for this opportunity to appear here today.

Before addressing the issues before us, however, we would first like to take this opportunity to commend you, Madam Chairwoman, and the members of the subcommittee for your outstanding efforts to ensure that our nation's veterans continue to have a viable home loan program to assist them in obtaining mortgage credit.

Clearly, the oversight and legislative efforts of the subcommittee have had a positive impact on the home loan guarantee program.

In response to your request for our comments on Public Law 100-198, since it was just enacted at the beginning of this year we have not had an opportunity to assess its affects yet on the home loan guarantee program; however, we would like to comment on those provisions that address the issue of providing financial information to veterans and loan servicing. By addressing this issue Congress has recognized the importance of curing defaults, thus saving taxpayer dollars and, more important, veterans' homes.

The VA also recognizes the importance of servicing VA loans. To quote from their circular, they indicated that "increased emphasis on personal supplemental servicing is essential to fulfilling the VA's goal of assisting veterans to avoid foreclosure and retain their homes. Eliminating avoidable foreclosures will result in a corresponding reduction in claim and acquisition payments costs, which the VA can ill afford."

Madam Chairwoman, we believe that in order to assist the VA in providing adequate loan servicing to veterans, this subcommittee should seriously consider increasing the employment levels within the VA to take care of this problem.

In regards to the proposed temporary relief program for financial disadvantaged veterans, I can only say that any program that is designed to benefit veterans and keep them from going into foreclosure certainly deserves serious consideration.

Madam Chairwoman, before concluding I would like to comment just briefly on H.R. 5221, which was marked up today. I believe that this is an important step in ensuring that the VA home loan guarantee program will continue to be a viable benefit for our nation's veterans.

However, as previously indicated in testimony before this subcommittee on this measure, the DAV strongly supports exempting all service-connected veterans from paying a mortgage indemnity fee, similar to that exemption which is provided for the home loan origination fee.

We have, in fact, never liked the home loan guarantee user's fee to begin with, and we feel that veterans should not have to pay for a benefit such as this.

That concludes my testimony. Thank you.

[The prepared statement of Mr. Schultz appears on p. 87.]

Miss KAPTUR. Mr. Bollinger?

STATEMENT OF JOHN C. BOLLINGER, ASSOCIATE LEGISLATIVE DIRECTOR, PARALYZED VETERANS OF AMERICA

Mr. BOLLINGER. Thank you.

Madam Chairwoman and members of the subcommittee, it is a pleasure for me to be here today to present the views of Paralyzed Veterans of America regarding the VA's housing program. Specifically, we will discuss the effects and implementation of Public Law 100-198, the Veterans' Home Loan Program Improvements and Property Rehabilitation Act of 1987.

Prior to our discussion of this law, PVA wishes to express our sincere gratitude to you, Madam Chairwoman, and members of the subcommittee, for your concern for the well-being of this vital benefit program.

We believe H.R. 5221, which you marked up this afternoon, represents a good investment in the well-being of the VA's home loan program. We believe that the provision to exempt veterans with service-connected ratings of 30 percent or more depicts a compassionate and proper provision. We also believe that reducing the indemnity fee to .75 percent when a veteran makes a 5 percent or more down payment represents an attractive addition to the package. In summary, we are pleased to support this bill.

The enactment of Public Law 100-198 on December 21, 1987, amended title 38 in numerous beneficial ways. It is with some concern that we find many of these provisions not yet fully implemented. We are hopeful that the VA will proceed as quickly as possible to implement all the provisions of Public Law 100-198, and in the future be in a position to anticipate final drafts and have regulations written in a more timely manner.

To many veteran home-buyers the increase in the maximum loan guarantee amount and the no down-payment feature represent the most obvious benefits in the program. As a result of the public law, maximum guarantees are now more realistic in today's market and, therefore, more attractive to potential home-buyers.

Obviously, the popularity of chapter 37 benefits plays an important role in the success of the program. While the maximum guarantee has remained stationary over the past eight years, housing costs have nearly doubled during that same time period. We believe that when it does make economic sense to do so, it would be beneficial to the entire VA home loan program if more frequent assessments of the maximum guarantees resulted in corresponding adjustments of this most fundamental ingredient of the home loan program.

The VA has implemented what we believe to be an important provision: to reduce the possibility of default on a VA loan. PVA has long supported the need for increased counseling efforts in the case of delinquent borrowers. In accordance with Public Law 100-198, we believe the VA is making significant improvement in providing assistance to veterans in danger of losing their homes due to foreclosure.

We understand that these veterans are being contacted when financial problems become apparent. Letters explaining various alternatives to foreclosures are delivered and, where possible, personal counseling appointments are arranged.

We are hopeful that the VA's pilot project at the Houston Regional Office to decrease the number of foreclosures is successful. As you know, the Administration's original budget proposal for fiscal year 1989 recommended a decrease of 75 full time employees in the VA home loan program. The Congress has wisely rejected this proposal and, due to funding earmarked specifically for loan servicing, the Houston loan guaranty office has been authorized to hire 10 critically-needed personnel. We look forward to the results of this project.

PVA believes the intent of Public Law 100-198 to assist the homeless represents a compassionate and fiscally-responsible response to the plight of homeless veterans and their families. Although the VA reports that only a few sales have been conveyed so far, we believe that over time local government agencies and nonprofit organizations will find these properties to be worthwhile investments.

Briefly, regarding the Rice Center proposal, refinancing at low interest rates with VA interest subsidies is a potential answer to the extremely high rate of defaults in areas such as Houston. We are aware of the VA's skepticism regarding the willingness of loan holders to capitalize and re-amortize delinquent loans, and that such refinanced accounts might not remain in existing mortgage pools guaranteed by the Government National Mortgage Association. We support the intent of a temporary refinancing interest subsidy program, but believe additional studies are necessary to clarify some of the issues about which the VA is concerned.

Madam Chairwoman, that concludes my testimony. Once again, we appreciate this opportunity to express our views.

Thank you.

[The prepared statement of Mr. Bollinger appears on p. 90.]

Miss KAPTUR. Thank you very much.

Finally, Mr. Magill.

STATEMENT OF JAMES N. MAGILL, DIRECTOR, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS

Mr. MAGILL. Thank you.

On behalf of the Veterans of Foreign Wars, I would like to thank you for the opportunity to appear before your subcommittee with comment on Public Law 100-198, and also future activities of the subcommittee during the 101st Congress.

At the outset, I would like to add our commendation to you for your work in advancing H.R. 2672 which, of course, ultimately became Public Law 100-198.

As you know, we supported this legislation in the hearings, and we appreciate you being so receptive to our concerns and, again, we thank you for that.

In your letter of invitation to testify we were asked to comment on the effects and implementation of this new law. Of course, with the enactment of Public Law 100-198 just being about eight or nine months ago, we also have yet to receive adequate feedback as to how the new provisions are being received by the veterans.

As we have heard, the VA is still writing regulations and, of course, when they are published in "The Register" and full implementation is achieved, we will be receiving feedback and, of course, will share with you those remarks that we get.

We were also asked to comment on proposals which may receive the attention of the subcommittee next year. One such proposal is the temporary refinancing.

VFW has long been concerned with the high foreclosure rates recently being witnessed with the VA and the psychological impact this has had on the veteran and his family. Programs such as the TRIS certainly are worthy of looking into, and we would encourage the committee to investigate this further at the 101st Congress.

I would also like to take just a few minutes, if I can—maybe even a little less than that—to comment on a reoccurring proposal which we think will probably come back again the beginning of next year, and that is the Administration's attempts to repeal the administrator's authority to establish the maximum interest rate that the VA may charge.

VFW strongly opposes eliminating the administrator's current authority. We believe that this would only, in the long run, harm the veteran. We think it would be a serious mistake, and we would encourage the subcommittee to reject it.

I would like to thank you again for the opportunity to appear before you and this subcommittee this afternoon to present the views of the Veterans of Foreign Wars. We sincerely appreciate all of your efforts on behalf of our nation's veteran population.

That concludes my remarks, Madam Chairwoman. I'd be happy to respond to any questions you might have.

[The prepared statement of Mr. Magill appears on p. 94.]

Miss KAPTUR. All right. I also want to thank all three of your organizations for working so closely with us and helping us to refine not only the bill that we passed last year, but some of the new measures that we are talking about. We really are grateful for your time and your energy.

I also want to say that the committee is very aware of the connection between servicing and curing defaults, and that we intend very much to monitor that to make sure that that effort continues at the VA, and that we are also very receptive to proposals to keep veterans in their homes rather than having them go through foreclosure. We think in the end that it will save the government money, and save everybody money.

I wanted to ask you to comment on a point that was brought up earlier this afternoon, and that had to do with the adjustable rate mortgage. If interest rates continue to go up in the country, do you think your organizations would be interested in pursuing some type of adjustable rate mortgage proposal if it were to have a conservative capping clause and take full account of the experience over at FHA?

Mr. MAGILL. We have always supported alternative means for veterans to get into their own homes. We have had reservations on the ARM's. If we were to accept or embrace that type of financing, I believe that we would really want to have controls over it so that the veteran wouldn't, after two or three years, be in a situation where he may not be able to afford that. I think ARM's have a place. To be perfectly honest right now I don't know to what extent we would want to support it.

We talked about it quite a bit. I think it has been brought up a couple of times at hearings. We are, of course, out to make sure that the veteran is treated fairly. And we feel that it is most important for a veteran to be able to finance his home properly when he does get into it.

Mr. SCHULTZ. Madam Chairwoman, I could just simply say that we would be more than happy to look at any proposal. I couldn't say right at this moment whether we would support it or not, not having seen it. But, as Mr. Magill has said, we are certainly willing to look at any proposal that is out there that would help a veteran in obtaining a home loan mortgage.

I would reserve judgment on any measure until we have had an opportunity to see that.

Miss KAPTUR. Thank you.

Mr. BOLLINGER. Likewise. We do have some concern about adjustable rate mortgages in that down the road the veteran home-buyer might encounter financial difficulties. However, we, too, would like very much to consider such a thing in view of the fact that the loan guarantee program right now is in fiscal trouble. We'd be glad to entertain such an idea.

Miss KAPTUR. According to the information that I have been provided, in the FHA program—the adjustable rate mortgage program there—the interest rate may be adjusted no more than one percent annually, and over the life of the loan the rate may not increase more than five percentage points above the original interest rate.

Overall under that program the adjustable rate mortgages cannot be more than one-third of the number of mortgages insured annually by FHA. So there are all kinds of caps there.

It is interesting. It appears to me that the VA witnesses are still in the back of the room, but they do have something over there now that they use called a "partially amortizing graduated payment mortgage" which actually provides an opportunity over the first five years of the loan to have a lower interest rate, and then monthly payments increase annually during the first five years of the loan, after which the payments are set at a level that is fixed. So there is something that is going on there already, and some type of an ARM proposal that wouldn't be all that different from that might make sense.

Mr. MAGILL. I think I am familiar with what you just referred to. Again, to compare it with the ARM's, that would be what you just explained. The veteran would know exactly what he is going to be paying over those five years. Now, that's the difference. With the ARM he comes in at a certain rate, if I understand it correctly, and, as the market fluctuates, he may not know what his mortgage payment is going to be three years down the road.

With the one that you described, I believe it is laid out clearly that he knows in four years he will be paying this amount, and then the bank can help him——

Miss KAPTUR. The only thing he would have under the ARM is that he or she would know that there would be a cap of no more than—under the FHA program it is five points, but they just know the outside end of it.

Mr. MAGILL. Yes.

Miss KAPTUR. But they would know exactly?

Mr. **Magill**. Yes. They would know exactly what he will be paying at any given time.

Miss **Kaptur**. All right. Do any of you gentlemen have anything else you would like to add?

[No response.]

Miss **Kaptur**. We really do appreciate your waiting to testify this afternoon. Thank you so very much.

And finally I would like to call up our last panel of hearty waiters here in the audience: Mr. Ronnie Wynn, vice president of Mortgage Bankers Association of America; Ms. Shirley Wiseman from the National Association of Home Builders, who is their first vice president; and Mr. Donald Kelly, the Director of Washington Operations of the Society of Real Estate Appraisers.

We are most grateful for your patience this afternoon. I know you all follow these hearings with some interest.

Mr. Wynn, you are the first batter-up on the final panel. I want to personally thank the mortgage bankers for so carefully monitoring our hearings both in Washington and in the field, and for having such excellent representation here in Washington and working so closely with this committee. You have just been great.

STATEMENT OF RONNIE J. WYNN, VICE PRESIDENT, MORTGAGE BANKERS ASSOCIATION OF AMERICA

Mr. **Wynn**. Thank you, Madam Chairwoman. Burton Wood sends his regards. He couldn't be with us this afternoon.

I am Ronnie Wynn, president of Colonial Mortgage Company in Montgomery, Alabama, and vice president of the Mortgage Bankers of America.

MBA appreciates this opportunity to testify on the implementation of the Veterans' Home Loan Program Improvements and Property Rehabilitation Act of 1987, a comprehensive and much-needed law for the participants in the Home Loan Guaranty Program.

Although it is generally too early to assess the impact of the law, MBA is concerned that a number of the provisions have not yet even been implemented. In particular, the VA has not implemented the no-bid formula changes, the mandatory underwriting on assumptions, and the new appraisal procedures. MBA offers its comments about the failure of the VA to issue these regulations, and also its comments on the Rice Center proposal, which would provide for temporary refinancing with an interest subsidy for VA home loans.

MBA is particularly interested in the changes in the no-bid formulas for the accrual of interest in the cases of VA delays, VA-requested forbearance, and bankruptcies. MBA believes that Congress intended to address specifically those no-bid cases where the VA would have acquired the property if the foreclosure had been timely and the resulting interest accrual not occurred.

MBA has urged the VA to carry out this Congressional intent, and has recommended that regulations permit the claim payment formula to be calculated on a case-by-case basis in order to target those delayed foreclosures that the legislation was designed to help.

Even though the law became effective almost seven months ago and is scheduled to expire in another year, the VA has not even published regulations. The longer the VA delays in publishing the regulations, the greater will be the number of foreclosure cases processed since the effective date that will have to be reopened by the VA and the lender.

MBA also urges the VA to move swiftly to implement the provisions that permit appraisals to be sent directly to VA automatic lenders when making a determination of reasonable value. FHA has had a procedure dealing with this situation for a number of years which the VA could easily adopt.

MBA is also concerned about the mandatory underwriting of VA loan assumptions which the VA is currently processing because regulations have not been issued. Underwriting assumptions is a common occurrence in the financing industry, so there is no need for a lengthy regulatory process. In fact, FHA implemented a similar provision without regulations.

Of vital interest to MBA is the fee that a lender will be able to collect for underwriting an assumption. The VA suggested a fee of $300 during negotiations with MBA. A fee of less than $500 would be below the industry norm, which is one percent of the unpaid principal balance of the loan being assumed, and would not adequately compensate a lender for the additional work, which is estimated to cost over $700 per loan. HUD currently allows a fee of $500 for underwriting an assumption on a FHA loan.

MBA also understands that the VA will impose a 45-day time limit for a lender to process an assumption, and any lender delays could jeopardize the lender's claim under the guaranty. The VA is putting constraints on the lender that the VA is not subject to and probably couldn't meet, itself. The VA faces no punitive or financial sanctions for failure to process a loan application or request for a release from liability within 45 days.

We are happy to offer our comments on the Rice Center study which analyzes the cost effectiveness of having the VA temporarily subsidize interest payments on defaulted VA home loans rather than foreclose on them when the veteran is able to make the lower monthly payments and keep the loan current. The difference between the original interest rate and the refinanced lower rate would be paid by the VA to the holder of the loan through its servicer, generally the Ginnie Mae investor.

The major flaw with the Rice Proposal, in the case of foreclosure, is to have the VA interest subsidy replace the current system of the VA either paying the lender the guaranty amount or acquiring the property in the eventual event of foreclosure. The loss of the VA guaranty would destroy the fabric of Ginnie Mae securities, which are backed by FHA and VA loans. Without the government's guarantee of VA loans, it could not be placed in Ginnie Mae pools.

Lenders currently make payments to Ginnie Mae investors when the loan is in default. These delinquency payments could not be added to the mortgage amount, as suggested as an alternative in the Rice study because the modification of the loan would make it ineligible for a Ginnie Mae mortgage pool.

Also, the study's cost savings is based on a number of doubtful assumptions. It cannot be assumed that every veteran in the study would have been a good candidate for the interest subsidy program and that all veterans who participate in the program would have avoided foreclosure.

Finally, the interest subsidy proposal is a cost savings only where the VA loses more on the foreclosure than it pays out in interest subsidies. If losses on foreclosures decline—and we all hope they do—then the proposal loses its attraction.

MBA believes that the Rice Center proposal is a creative program that requires more analysis. Also, the secondary mortgage market presents obstacles to its implementation.

MBA appreciates the opportunity to testify before this subcommittee. We will be happy to answer any questions or provide additional information for the hearing record.

[The prepared statement of Mr. Wynn appears on p. 96.]

Miss **Kaptur**. Thank you, Mr. Wynn, very much.

Ms. Wiseman, why don't we continue with you? Welcome back.

STATEMENT OF SHIRLEY MC VAY WISEMAN, FIRST VICE PRESIDENT, NATIONAL ASSOCIATION OF HOME BUILDERS

Ms. **Wiseman**. Thank you.

My name is Shirley McVay Wiseman, and I am the first vice president of the 155,000-member National Association of Home Builders. It is a real pleasure for me to give you our views on the 1987 VA Housing Act, and also to comment in support of the Rice Center's proposal to reduce foreclosures by providing temporary loan refinancing with an interest payment supplement.

Madam Chair, while it is too early to assess the impact of all the changes in the 1987 VA law, we support the action taken by Congress in passing the most comprehensive bill to improve the home loan program since it began in 1944.

We supported the increase in the loan guaranty amount in high-cost areas, exemption from sequestration provisions of the Deficit Reduction Act, direct review of appraisals by automatic lenders, and other things. But we are concerned that last year's legislation reduces the loan guaranty amount which a veteran may receive at the lower end of the scale.

We hope that Congress will continue to monitor and assess the impact of the new formula on the lower end of the market so that these veterans won't be denied home ownership opportunities.

VA and NAHB have worked well together to solve the problems facing the housing industry. In this regard, we urge prompt implementation of last year's VA housing bill which provides for direct approval of appraisals by VA lenders. This legislation would substantially shorten the time involved to process VA loans.

We have been told by the VA, however, that its regulations will only apply to existing housing, and that regulations for new construction will be delayed. We strongly urge you to seek immediate implementation of this program for new construction as well as existing houses.

Miss **Kaptur**. Ms. Wiseman, could I just interrupt you one second? Mr. Vogel from the Veterans' Administration is still in the back of the room, and Mr. Pedigo, and I'm hoping that they might comment on this particular request, because it is one that I did not pursue in my questioning that I think is equally important. So I will call on them when this panel is completed.

Ms. WISEMAN. Good. Thank you.

NAHB urges the Congress to support an adjustable rate mortgage for VA buyers. We appreciate you passing a pilot program for an ARM in the House of Representatives last year, but we regret that it was dropped in conference.

You are aware that the Housing Task Force report recommends that the VA program include an adjustable rate mortgage. The report emphasizes that an ARM is necessary to make the VA program fully responsive to the market.

We are also concerned that this subcommittee is considering significant changes in the program without the benefit of an in-depth review of the program's strength and weaknesses. In this regard we oppose the provisions in H.R. 5221 which create a loan indemnification program. We believe such changes need greater study.

We urge you to create an independent commission to look into these and other issues of importance to the VA home loan guaranty program.

We support the Rice Center proposal to help veterans stay in their homes for the following reasons: it assists veterans in keeping their homes. This is particularly helpful in depressed markets where auctions and other property disposition practices have lowered home values and de-stabilized the market place.

It costs less than foreclosure, according to the study. According to their proposal, the average loss on a foreclosed loan in Houston is $23,494. Even under their worst-case scenario on a four percent loan for 48 months the cost is $15,346, or $8,148 savings. This is only 65 percent of the cost of disposing of the property when foreclosure occurs, and it also allows veterans to maintain their credit rating, keeping away the stigma of foreclosure.

We appreciate very much you allowing us to testify, and we will try to answer any questions you may have.

[The prepared statement of Ms. Wiseman appears on p. 103.]

Miss KAPTUR. Thank you.

Mr. Kelly? Your name card reads "Mr. Sears," but we welcome you, Mr. Kelly.

STATEMENT OF DONALD KELLY, DIRECTOR, WASHINGTON OPERATIONS, SOCIETY OF REAL ESTATE APPRAISERS

Mr. KELLY. Thank you very much. Mr. Sears is the current president of the Society of Real Estate Appraisers and was unable to make it, so I am here in his stead.

It is good to be back before the subcommittee, Madam Chairwoman. I will summarize my remarks and deal only with the appraisal issues presented in the bill.

As you know, the Society of Real Estate Appraisers is the largest independent voluntary appraisal organization in the country. We are now in our 53rd year as a professional association. The society has consistently supported the work of those who favor high standards for the appraisal profession. This new law favors high standards.

Recognizing the shared responsibility for appraisal reform, however, private action is also underway.

The Society has contributed to an industry-wide effort which has produced the uniform standards of professional appraisal practice. This effort has produced the Appraisal Foundation. The Foundation functions as a parent entity for the Appraisal Standards Board and the Qualifications Board.

These boards, the Foundation, and individual State certification programs form a basis for a self-regulatory system for appraisers. This regulatory system helps consumers and others by providing an industry consensus on appropriate appraisal standards and qualifications.

Quality appraisals are essential to the VA home loan guaranty program. We are supportive of the changes that have been implemented to improve the VA appraisal process. The legislation establishes qualifications for VA appraisers and allows for a VA appraisal review system, among other things. We are satisfied that the VA is properly implementing the new law.

Procedures for administering a mandatory written test to applicants will help in obtaining competent appraisers. The VA's policy for rotational assignments, preference given to professional designations in the selection process, and adherence to State certification laws, will help ensure a more consistent product for the VA.

Since the consistency of standards and qualifications is an important concern for the society members and others, I wish to suggest that the VA take advantage of the work being done and conducted by the Appraisal Foundation and its independent boards. This will ensure that the industry is involved in drafting standards and qualifications not only for the VA, but for other government programs, as well.

Also, for consistency the new uniform standards should be endorsed and used as the fundamental standards for the VA appraisers to follow. These uniform standards are anticipated as being the basis for any additional rules promulgated by the industry or other federal agencies.

Finally, care must be taken when drafting regulations which implement provisions authorizing lenders to determine reasonable value under this act. Appraisers must be able to maintain objectivity when producing estimates of value. Lender pressure to arrive at pre-determined value estimates should be restricted.

The real estate appraisal profession is in a period of dramatic change, and we are confident that the efforts underway will result in benefits for the profession and all those who rely upon appraisal services.

Thank you very much.

[The prepared statement of Mr. Kelly appears on p. 114.]

Miss Kaptur. Thank you very much.

Mr. Kelly, let me ask you: Are you aware that the Veterans' Administration agreed to work with the Appraisal Foundation and the Appraiser Qualifications Board in terms of the uniform appraisals, as your testimony has recommended?

Mr. **Kelly**. We have been in contact with the VA for some time, working with them as the Society of Real Estate Appraisers. The Appraisal Foundation is a new entity, and they are only now beginning to be a formal source of information in VA's set up. So I certainly encourage that process to continue.

Miss **Kaptur**. We would, as well.

I wanted to ask either Mr. Vogel or Mr. Pedigo if you might come up to the microphone, and, for the official record, address Ms. Wiseman's interest in the lender appraisal review system and its current status. I neglected to ask that during my own questioning because of the time, but I think it extremely important. Could you give us the status on that, please? It has been quite a while in the works—almost two years if you look at the Administration's original recommendations in that regard and then our own bill.

Mr. **Pedigo**. We're talking about the direct lender review appraisal?

Miss **Kaptur**. That is correct.

Mr. **Pedigo**. Actually, we've only had the authority to do that since the bill was passed last year, so we feel that the clock began ticking for us about the beginning of this year.

It has taken longer than we would have liked, but we ran into some problems initially because we thought that the way the law was worded that we would be able to put these requirements in without regulations, and then, at some later point, prepare the regulations and put them in place.

We received some advice after we had started down this road from our counsel that this was not the appropriate way to go. They said that we should have the regulations in place before implementing this for reasons of enforceability. Specifically, we were told that in the event we need to sanction any of the participants in this program, that it would be difficult to do so without regulations in place.

So, in view of that advice, we started drafting the regulations. At the present time we have the first draft completed. We hope that within the next couple of weeks we will be able to send those regulations to our General Counsel for their review, at which time we should be able to publish them for comment in "The Federal Register," and then, after taking those comments under advisement, publish the final regulations.

We think it is still at least six months down the road before we can have these regulations finalized and the program operational.

Miss **Kaptur**. Well, I know you to be a responsible person, and anything you can do to speed that up would be greatly appreciated by this committee and all of those people who have contacted us from around the country on this whole appraisal issue of direct appraisal.

Mr. **Pedigo**. We'll do our best.

Miss **Kaptur**. I can't imagine what is so complicated about that. I have a great prejudice against attorneys, so, again, they hold up the process for a long time. That will get me in a lot of trouble.

Thank you very much for responding to that.

I wanted to also say, Ms. Wiseman, in your comments you indicated that the committee perhaps had not comprehensively reviewed alternatives before it came up with the indemnification fee proposal. Please let me assure you and all of the people in the audience and the other witnesses today that, in fact, we put a lot of effort into this proposal, going as far back as the founding fathers of FHA and the VA. We had them in here for extensive discussions.

We talked to people from Ginnie Mae, from Fannie Mae, we talked to all the veterans' organizations, we talked to all of the service organizations, we talked to any association that has anything to do with the guaranty program at all. And we beat the bushes all around the country, and we had several meetings. We had a lot of testimony, and this is the best consensus of opinion that we could arrive at.

So it was not done hastily. It wasn't pulled out of the air. Even the proposal that if a veteran makes a five percent down payment there is a reduction in the fee, itself. There was a lot of thought given to how this program will become self-sufficient over time—and we are under a great time constraint of additional appropriations into the current revolving fund if we don't take action, so we can't wait for a long time to come up with a better idea. We really feel we have the best minds in the country that have helped us to think this through.

We also don't want to retain an existing program where we feel we penalize the new people who are getting new loans—penalize them in some way in the cost of their mortgage—for the sins of the past.

So we have made the decision to separate the two programs, and we hope to make them self-sufficient. We also operate under the constraints of a terrific federal deficit trying to make the program more self-sufficient.

We have done this with grave considerations. I know of your own expertise in this area, and I just wanted to assure you that if there are any other comments that you have after the hearing we would welcome those, but we really feel that we have thought this one through.

I was the toughest one to convince, and the proposal has altered substantially since it began being discussed as a result of all these conversations.

We still have some work to do with the numbers with the Congressional Budget Office, but we are about the task of trying to make this program as self-sufficient as possible and retain it as a benefit entitlement program.

Unless there is something else that one of the witnesses would like to say further?

Mr. WYNN. I would like to say that we, also, as mortgage bankers, through our letter to you oppose it. I don't want to leave my good friend, Ms. Wiseman, to carry that ball alone. But then we have addressed the issues in our letter to you, and I hope they will be given consideration.

Miss KAPTUR. They definitely will, Mr. Wynn. We have always appreciated the comments of the Mortgage Bankers, and they do help us to improve our legislative proposals as we go along. So we are going to take another careful look at them. You can be assured of that.

Mr. WYNN. Thank you very much.

Miss **Kaptur**. All right.

Thank you all very much for coming today, and for the audience, as well.

The subcommittee is adjourned.

[Whereupon, at 4:12 p.m., the subcommittee was adjourned, to reconvene at the call of the Chair.]

APPENDIX

MISS KAPTUR, CHAIRWOMAN

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

OVERSIGHT OF PUBLIC LAW 100-198

SEPTEMBER 7, 1988

AT THE TIME I SCHEDULED THIS HEARING ON PUBLIC LAW 100-198, THE VETERANS' HOME LOAN PROGRAM IMPROVEMENTS AND PROPERTY REHABILITATION ACT OF 1987, I BELIEVED THAT ANY LAW WHICH HAD BEEN PASSED DURING A CRISIS PERIOD WOULD HAVE BEEN FULLY IMPLEMENTED AFTER EIGHT MONTHS.

I AM SINCERELY CHAGRINED THAT NOT ONLY HAVE HAVE SOME OF THE PROVISIONS BEEN RECENTLY IMPLEMENTED BUT THAT SOME REGULATIONS HAVE NOT YET BEEN WRITTEN. SINCE TAKING THIS CHAIR LAST YEAR, THE SUBCOMMITTE HAS TRIED TO FACE ALL OF THE MOUNTING PROBLEMS ASSOCIATED WITH THE OPERATION OF

THE VA HOME LOAN GUARANTY PROGRAM. LAST YEAR'S LAW MADE SIGNIFICANT IMPROVEMENTS TO ASSIST VETERANS IN OBTAINING AND KEEPING QUALITY, AFFORDABLE HOUSING.

IT WAS DESIGNED TO PRESERVE THE PROGRAM'S BASIC INTENT, OFFER CREATIVE APPROACHES TO SOME OF ITS PRESENT-DAY ADMINISTRATIVE PROBLEMS AND WORK TOWARDS SETTING IT ON A SOUND FOOTING FOR MEETING VETERANS' NEEDS. THE OVERALL CONSENSUS WAS FAVORABLE WHEN WE PASSED THE BILL AND ITS PROVISIONS ARE STILL VIEWED AS BENEFICIAL. IT IS MY SINCERE HOPE, THEREFORE, THAT THE VETERANS ADMINISTRATION WILL SPEEDILY IMPLEMENT THE REST OF THE PROVISIONS CONTAINED IN THIS LAW AS WELL AS THE MORTGAGE INDEMNITY PROPOSAL ONCE IT IS ENACTED.

AS THIS IS AN OVERSIGHT HEARING, I LOOK FORWARD TO RECEIVING EVERYONE'S VIEWS AND COMMENTS AS THIS HEARING MAY POINT UP THE NEED FOR ADDITIONAL LEGISLATION NEXT YEAR.

88-504 E

CRS REPORT FOR CONGRESS

HOUSING PROGRAMS OF VA AND FHA: A COMPARISON

This report compares the single-family housing programs of the Veterans Administration (VA) and the Federal Housing Administration (FHA). It makes an assessment of the origins of the programs, their initial and current objectives, loan terms, eligibility requirements, underwriting guidelines and foreclosure procedures.

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by
B. Ellington Foote
Analyst in Housing
Economics Division

August 24, 1988

HOUSING PROGRAMS OF VA AND FHA: A COMPARISON

SUMMARY

This report compares key features of the housing programs of the Veterans Administration (VA) and the Federal Housing Administration (FHA) which guarantee or insure mortgage loans used in the purchase of single-family homes. The FHA home mortgage insurance program was started in 1934 to broaden homeownership, to protect the home lending institutions, and to stimulate employment in the building trades. The VA Home Loan Guaranty Program was started in 1944 as an alternative to cash bonuses for veterans of World War II and as an investment outlet for the savings which had been accumulated because of restrictions on investment during the war years.

Loans may be obtained under both programs to build, purchase, or repair homes with one to four housing units or to refinance existing loans on such homes. Homes obtained with VA-guaranteed loans must be occupied by the owner, while investors may obtain FHA-insured loans. VA places no limits on the maximum loan that may be guaranteed but lenders generally limit the loans to $144,000. FHA limits insured loans to $67,500 except in FHA-designated "high cost" and "special high cost" areas where the loans may be $101,250 and $151,850, respectively.

The interest rate on a VA-guaranteed loan is set by the VA while the rate on an FHA-insured loan is negotiated by the parties involved in the transaction. VA-guaranteed loans may only have fixed interest rates. In a given fiscal year up to 30 percent of FHA-insured loans may have interest rates that may be adjusted annually.

Congress sets fiscal year limits on the number of loans that may be guaranteed by VA or insured by FHA. The FHA limit is subject to reduction by sequestration under the Gramm-Rudman-Hollings Balanced Budget Act while the VA limit, since November 1987, is exempt from sequestration.

The FHA program is self supporting. It had a net income of $101 million in 1987 and had more than $4 billion in reserves at the end of the fiscal year. The VA program was not designed to be self supporting. Since 1984, deficits in the program's operation have been funded by appropriations from Congress.

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HOUSING PROGRAMS OF VA AND FHA: A COMPARISON

The following is a side-by-side comparison of key features of the Veterans Administration (VA) and the Federal Housing Administration (FHA) programs which guaranty or insure mortgages on single-family homes.

VETERANS ADMINISTRATION	FEDERAL HOUSING ADMINISTRATION
PROGRAM ORIGINS	
The Servicemen's Readjustment Act of 1944 established the VA home loan guaranty program. The program authorized 20-year loans at a 4 percent interest rate under which the VA guaranteed to pay the lender the lesser of 50 percent of the loan amount or $2,000 if the borrower defaulted. The loan term, interest rate and the percentage and dollar guaranty limitations have been increased over the years.	The FHA was created by the National Housing Act of 1934. Through the newly created Mutual Mortgage Insurance Fund, the FHA was authorized to insure lenders against loss on home loans. The loans could have up to a 20-year term and were limited to 80 percent of the appraised value of the property, with a maximum mortgage of $16,000. The interest rate was generally limited to 5 percent but a 6 percent rate was authorized when demanded by the mortgage market under special circumstances.
INITIAL OBJECTIVES	
The VA loan guaranty program was an alternative to cash bonuses for the millions of men and women who served in the Armed Forces during World War II. There was the feeling that veterans, during their service to the country, had missed the opportunity to accumulate savings or to establish a credit rating which could be the basis of borrowing to acquire a home or establish a business. In defense of the Nation many had risked their lives and deferred their dreams. The loan guaranty program was an attempt to put them on par with their nonveteran counterparts. The program also provided an investment outlet for the large savings which had been accumulated because of restrictions on investment during the war years.	The National Housing Act of 1934 had three objectives: (1) to broaden homeownership, (2) to shore up and protect home financing institutions, and (3) to stimulate employment in the building industry. The FHA insured lenders against loss on mortgage loans and fostered the change from short-term balloon mortgages to long-term amortizing mortgages. Prior to the creation of FHA, few mortgages exceeded 50 percent of the property's value and the mortgages were written for terms of 5 years or less. Liberal mortgage terms stimulated home building. Unemployment had reached a high of nearly 24 percent in 1933 and about a third of the workers on the relief roll were from the building trades.

CURRENT OBJECTIVES

The main objective of the VA home loan guaranty program is to help veterans finance the purchase of homes with favorable loan terms.

The FHA mortgage insurance program has two primary objectives: (1) to serve homebuyers who are not adequately served by the private sector, and (2) to develop and test innovative mortgage financing techniques that are necessitated by changing market conditions.

MAXIMUM MORTGAGE

VA places no limits on the maximum mortgage that the veteran may obtain, except that the mortgage may not exceed 101 percent of the home's value if the funding fee is financed, and the payments must be within the means of the borrower. As a rule, however, lenders will not make VA-guaranteed loans in excess of $144,000.

The maximum mortgage is $67,500 for one-unit properties. This maximum may be increased by up to 150 percent for FHA-designated "high-cost" areas. Homebuyers in these areas may be eligible for loans of up to $101,250, but loans may not exceed 90 percent of the area's average home price. Hawaii, Alaska and Guam are designated as "special high cost" areas where the maximum mortgage is $151,850.

LOAN TERM

VA-guaranteed loans may be obtained for mortgages with terms of up to 30 years and 32 days.

FHA-insured loans may be obtained for mortgages with terms of up to 30 years. In special cases, low-income borrowers may be eligible for 35-year loans to make the mortgage more affordable.

ELIGIBLE LOAN PURPOSES

VA-guaranteed loans may be used to purchase single-family detached homes, townhomes, rowhouses, two-to-four family buildings where the owner will occupy one or more of the units, manufactured homes and lots, and condominiums in developments approved by VA.

The loans may also be used to build a home; to repair, alter, or improve a home; to refinance an existing home loan; to refinance an existing VA-guaranteed loan to reduce the interest rate; to simultaneously purchase and improve a home; or to install a solar heating and cooling system or other weatherization improvements.

FHA-insured loans may be used to purchase single-family detached homes, townhomes, rowhouses, two-to-four family buildings, manufactured homes and lots, and condominiums in developments approved by FHA.

The loans may also be used to build a home; to repair, alter, or improve a home; to refinance an existing home loan; to simultaneously purchase and improve a home; or to install a solar heating and cooling system or other weatherization improvements.

FEDERAL GUARANTY OR INSURANCE

An eligible veteran may purchase a home through a private lender and the VA guarantees to pay the lender a portion of losses that may be suffered as a result of default by the borrower. On loans closed prior to February 1, 1988 the VA guaranty is 60 percent of the loan amount but no more than $27,500. For loans closed on or after February 1, 1988 the VA loan guaranty, in effect, operates on two tiers. For loans of $45,000 or less, the guaranty amount is 50 percent of the loan. For loans in excess of $45,000, the VA guaranty is the lesser of 40 percent of the loan amount or $36,000, but the minimum guaranty is $22,500 or the entitlement available to the veteran. For manufactured homes the guaranty is 40 percent of the loan up to a maximum guaranty of $20,000.

The FHA insurance protects the lender against loss in case of default by the borrower. In contrast to the VA, which only guarantees a portion of the loan, the FHA insurance typically covers the whole loan. Some loans, however, are co-insured by the lender.

EXPEDITED LOAN PROCESSING

Qualified lenders may obtain authority to close loans without prior review or approval by the VA. This program is referred to as "Automatic Processing." The lender calls VA to request an appraisal and a case number. VA assigns an appraiser from a panel of approved private appraisers. The lender contacts the appraiser and orders an appraisal on the subject property. When the appraisal is completed the report is sent to VA for review. The VA sends the lender a "certificate of reasonable value" (CRV) and the case is processed to closing by the lender. If the lender had previously obtained an FHA conditional commitment for the subject property, then the VA appraisal would not be needed. A reciprocity agreement between VA and FHA permits an FHA conditional commitment to be converted to a CRV and vice versa. For VA-guaranteed home improvement loans of $2,500 or less the lender may use an on-staff appraiser approved by VA.

Qualified lenders may obtain authority to close loans without prior review or approval by FHA. This program is referred to as "Direct Endorsement." The major difference between the VA Automatic Processing program and the FHA Direct Endorsement program is in the appraisal process. The appraiser sends the appraisal report directly to the lender in the FHA program while the report is sent to the VA under the Automatic Processing program. Thus, the processing time is shorter under the FHA program because the lender does not have to wait for a response from the agency. Also, under the direct endorsement program, the lender's on-staff appraiser may be used if the lender does not have an ownership interest in the property being financed, if the appraiser is a salaried employee of the lender, and if the lender has FHA's approval to use the staff appraiser in the program.

PROGRAM FUNDING

Since 1962, the VA home loan guaranty program has been funded by the VA Loan Guaranty Revolving Fund (LGRF). The LGRF was authorized to fund all operations of the loan guaranty program except administrative costs.

The LGRF was never designed to be self supporting. It was developed as a convenient means of paying the costs of the loan guaranty program and receiving program collections. The LGRF has been operating at a deficit since 1981 and has operated at a surplus in only six years since its inception. Prior to 1984, deficits in the LGRF were funded by transfers of unobligated balances from the VA Direct Loan Revolving Fund, so the loan guaranty program was able to operate without appropriations from Congress (except for administrative expenses). For a variety of reasons those balances are no longer available at the level needed to fund the deficits in the LGRF. In FY 1987, $110 million was transferred from the Direct Loan Revolving Fund to the LGRF--the first such transfer since FY 1984 when $230 million was transferred. No transfer is anticipated for FY 1988 and FY 1989.

Since 1984, deficits in the LGRF have been funded primarily by appropriations from Congress. In FY 1987 and 1988, appropriations have totalled $100 million and $1.1 billion, respectively. The FY 1989 appropriations are expected to be $658 million.

Since 1982, the user fees paid by borrowers have been used to help fund the program. (See the section on user fees.) In FY 1987, nearly $341 million in fees was collected. Collections of $148 million and $181 million are expected in FY 1988 and FY 1989, respectively.

The FHA home mortgage insurance program is funded by the FHA Mutual Mortgage Insurance Fund (MMIF). Under current law borrowers pay a mortgage insurance fee of 3.8 percent of the mortgage amount. The fee is paid at loan closing and is credited to the MMIF. Prior to 1983, borrowers paid a monthly fee of 0.5 percent of the loan balance. In FY 1987, more than $772 million in insurance fees was collected.

The MMIF was designed to be actuarially sound and self-supporting. A few years after its creation the MMIF began to earn a positive net income and it has consistently been profitable since then. In FY 1987 it had a net income of $101 million. At the end of the fiscal year the MMIF had more than $4 billion in reserves. Thus, the MMIF is able to fund all operations of the FHA home mortgage insurance program (including salaries) without appropriations from Congress.

LOAN TYPES

All VA-guaranteed mortgages have fixed interest rates for the term of the loans. The VA guarantees fully-amortizing mortgages, partially-amortizing graduated-payment mortgages, growing-equity mortgages, and buydown mortgages.

With a fully-amortizing mortgage the monthly payments are such that the required principal and interest are paid each month so that the loan is completely repaid at the end of the loan term.

With a partially-amortizing graduated-payment mortgage the monthly payments are not large enough to pay the principal and interest due on the loan. This usually occurs during the first five years of the loan. The shortfall is added to the loan balance and the result is that the loan balance increases over time. Monthly payments increase annually during the first five years of the loan after which the payments are at a level to fully-amortize the loan balance over the remaining term.

Under the growing-equity mortgage the monthly payment is larger than what's needed to repay the loan over the term so the loan is repaid faster. Usually the repayment plan provides for gradual increases in the monthly payment with all of the increase applied to repayment of the principal balance. Thus, a typical 30-year mortgage may be paid off in 16 to 21 years.

A buydown mortgage is one under which the builder of a new home or the seller of an existing home provides the lender with a large lump-sum payment which will be used to subsidize the buyer's monthly payments for the first one to five years of the loan. In effect, the buyer receives a reduced-rate loan during the buydown period.

In addition to the loan types authorized by the VA, the FHA will insure fully-amortizing adjustable-rate mortgages, shared-appreciation mortgages, and home equity conversion mortgages.

On the adjustable-rate mortgages the interest rate may be adjusted no more than 1 percentage point annually and, over the life of the loan, the rate may not increase more than 5 percentage points above the original interest rate. Adjustable-rate mortgages may total no more than 30 percent of the number of mortgages insured by FHA during the previous fiscal year.

Under shared-appreciation mortgages, the borrower receives a reduced-rate loan and the lender gets a share in the future appreciation in the value of the property. Regulations were never promulgated to implement these loans.

A two-year demonstration program has been authorized for FHA-insured home equity conversion mortgages. Based on the value of the home, the owner receives monthly payments from the lender for an indefinite period. Repayment of the loan is deferred until the death of the owner, the sale of the home, or the occurrence of specified events. Borrowers must be at least age 62 and must own and occupy single-family homes. The FHA insurance protects the lender from loss when the proceeds from a home sale are less than the disbursements that have been made over the loan term. The insurance fund will continue payments to the borrower if the lender defaults. No more than 2,500 mortgages may be insured under this demonstration which will end on September 30, 1991.

The graduated-payment mortgage is limited to owner-occupants who are purchasing one-family dwellings.

INTEREST RATES

The VA sets the maximum interest rate that lenders may charge for VA-guaranteed housing loans. The rate varies from time to time based on changes in the mortgage market. Once a loan is made, however, the rate stays the same for the life of the loan.

The interest rate on FHA-insured loans is negotiated by the borrower, seller and lender. The borrower has the option of selecting a loan with an interest rate that is fixed for the life of the loan or one on which the rate may be adjusted annually.

DISCOUNT POINTS

Discount points are the charges levied by lenders when the mortgage interest rate is too low to produce the yield or income that other investments would provide. A discount point is 1 percent of the mortgage amount. In general, veterans are not permitted to pay points in connection with VA-guaranteed loans. The points are paid by the seller unless the veteran is refinancing an existing loan, obtaining a home improvement loan, or building a home on land owned by the veteran. The veteran is permitted, however, to pay a loan origination fee of 1 percent of the mortgage amount.

On FHA-insured loans the payment of points is negotiated between the buyer and seller. The buyer may pay a loan origination fee of no more than 1 percent of the mortgage amount. The Administration argues that this fee should be deregulated.

USER FEES

Veterans pay a funding fee of 1 percent of the loan. The fee may be paid in cash or added to the loan amount. Persons who assume VA loans which were originated after March 1, 1988 pay a funding fee of 1/2 of 1 percent of the outstanding loan balance. Persons who obtain VA loans to purchase property acquired by VA through foreclosure pay a fee of 1 percent of the loan amount. These fees are not refundable if the loans are prepaid.

Borrowers pay a mortgage insurance premium (MIP) of 3.8 percent of the mortgage amount. The fee is paid at loan closing and may be paid in cash or added to the loan amount. If the loan is paid off prior to maturity, the borrower may be due a refund of that part of the MIP which has not been earned by FHA. If, for instance, a borrower sells the home after five years (and the loan is not assumed) the borrower would be due a refund of approximately 40 percent of the MIP that was paid.

CREDIT LIMITS

The volume of loans that the VA may guaranty in a given fiscal year is set by Congress. Since November 19, 1987, this ceiling is exempt from sequestration under the Gramm-Rudman-Hollings Balanced Budget Act.

The volume of FHA insurance commitment is subject to a fiscal year ceiling set by Congress. The ceiling is subject to reduction by sequestration under the Gramm-Rudman-Hollings Balanced Budget Act.

DOWNPAYMENT

The downpayment is a matter of negotiation between the borrower and the lender. Standard lender practice is to permit eligible veterans to borrow up to $144,000 with no downpayment.

For owner-occupants, the maximum FHA-insured loan is the sum of (1) 97 percent of the first $25,000 of the acquisition cost and (2) 95 percent of the acquisition cost in excess of $25,000. For a veteran, the maximum mortgage is $25,000 plus 95 percent of the acquisition cost in excess of $25,000. For homes costing $50,000 or less, the maximum mortgage is 97 percent of the acquisition cost. Acquisition cost is defined as the sales price (or appraised value) plus FHA-allowed closing costs. The downpayment is found by subtracting the maximum mortgage from the sales price.

Investors must make downpayments of at least 25 percent of the sales price.

ASSUMPTION OF LOANS

In general, loans closed prior to March 1, 1988 may be assumed without restrictions. For loans closed after March 1, 1988, the party who seeks to assume the loan must be proven creditworthy by the lender holding the loan and the assumption must be approved by the VA. If an unapproved assumption occurs the lender may, within 30 days, demand immediate and full payment of the loan. If the assumption is approved the new borrowers pays a fee of 1/2 of 1 percent of the balance due on the loan.

Restrictions, however, do apply to assumptions of VA-guaranteed mortgages which were generated from proceeds of a State or local mortgage revenue bond issue. Generally, these mortgages may only be assumed by first-time homebuyers who meet the income guidelines established by the respective bond programs.

In general, mortgages insured prior to December 1, 1986 may be assumed without restrictions. For mortgages insured after that date, each person seeking to assume a loan must have a credit review if the assumption takes place within the 12-month period after the loan was insured. If the mortgage was originated by an investor then the credit review is required for an assumption within the 24-month period after the loan was insured.

As with the VA program, restrictions apply to assumptions of FHA-insured mortgages which were originated from proceeds of a mortgage revenue bond issue. Usually the mortgages may only be assumed by first-time homebuyers who meet the income guidelines established by the bond programs.

OWNER OCCUPANCY

In general, veterans obtaining VA-guaranteed loans to purchase or refinance a home must certify that they intend to occupy the property as a primary residence. Property, that has been acquired by VA as a result or default or foreclosure by a veteran, may be sold to owner-occupants or investors.

FHA-insured loans may be obtained by owner-occupants and by investors.

ELIGIBILITY

Eligibility for VA-guaranteed housing loans is, generally, based upon the period and length of service on active duty of honorably discharged veterans. Veterans who served more than 90 days of active duty during World War II, the Korean conflict, or the Vietnam Era are eligible for VA-guaranteed housing loans. Veterans whose service fell entirely within (1) 7/26/47 to 6/26/50, (2) 2/1/55 to 8/4/64, or (3) 5/8/75 to 9/7/80 (enlisted) or to 10/16/81 (officers) must have served at least 181 days of active duty. Veterans who separated from service which began after 9/7/80 (enlisted) or 10/16/81 (officer) must have completed 24 months of active duty or the full period (at least 181 days) for which they were called or ordered to active duty. The unmarried surviving spouses of veterans whose deaths were service connected and the spouses of veterans listed for 90 days or more as missing-in-action or prisoners-of-war are also eligible for VA loans. Veterans who receive a discharge other than honorable may apply to the Administrator of the Veterans Administration for a certificate of eligibility.

Under current law, a veteran's entitlement to a VA-guaranteed housing loan is good until used.

FHA-insured loans are available to anyone who can demonstrate the ability to repay the loans according to the terms of the contract. Parties who are in default on previous FHA-insured loans may not be eligible for new loans unless the default is cleared or the borrower can show that the default was caused by circumstances beyond the borrower's control. Likewise, parties who have previously defaulted on non-FHA insured loans, may not be eligible for FHA-insured loans.

Veterans may obtain FHA-insured loans with lower downpayments than borrowers who have not served in the armed services. (See the section on downpayments.)

MULTIPLE PURCHASES

By paying off an existing loan, either directly or by selling the property, a veteran becomes eligible for another VA-guaranteed loan. So the VA program permits a veteran to purchase a "starter home" and a number of "move-up" homes as long as the previous loans are repaid.

If a veteran sells the home and the loan is assumed by a nonveteran, the veteran's entitlement for a new VA-guaranteed loan will not be restored until the loan is repaid. If, however, the loan is assumed by a veteran, the purchaser and seller may apply to VA for substitution of entitlement and the selling veteran's entitlement could be used to obtain another VA-guaranteed loan.

Under limited conditions a veteran may purchase a second home without repaying the existing loan. The maximum VA loan guaranty is set by law and has been periodically changed by the Congress. That guaranty amount is considered an entitlement to eligible veterans. If a veteran purchased a home when the guaranty was lower than it is under existing law then the veteran is eligible to purchase another home with the unused guaranty. The maximum loan in such a case would be 75 percent of the appraised value of the home plus the unused guaranty. In 1977, for example, the maximum VA guaranty was $17,500 while today that maximum is $36,000. A veteran who purchased a home in 1977 would now have $18,500 in unused loan guaranty which could be used to purchase another home. The maximum loan would be 75 percent of the home price plus $18,500. Of course, the new home would have to become the principal residence of the veteran and the mortgage could not exceed $144,000.

As long as the applicant has not defaulted on previous FHA-insured loans, the applicant may obtain an unlimited number of such loans. A "starter" home and a number of "move-up" homes may be purchased as long as each mortgage does not exceed the FHA maximum. To qualify for low downpayments the borrower must certify that the home will become the principal residence.

UNDERWRITING GUIDELINES

Statutory credit criteria provide that VA may not guaranty a loan unless (1) the veteran is a satisfactory credit risk and (2) the contemplated loan terms are within the means of the veteran, as indicated by the veteran's present and anticipated income and expenses. In underwriting loans for approval, the VA's loan analysis form is used to evaluate the veteran's personal and financial status, the estimated monthly shelter expenses, the debts and obligations, and the monthly income and deductions. The veteran's residual income and debt-to-income ratio are calculated and used as guides in making a decision on the loan. The VA stresses, however, that no single factor should be used as a determinant in any applicant's qualification for a VA-guaranteed loan.

Residual income is determined by subtracting taxes, the proposed shelter cost, and other obligations from the veteran's monthly income. The VA has prepared a table which shows the minimum residual income, by region, for families of various sizes. The applicant's residual income should equal or exceed the stated minimum for the applicant's family size.

The veteran's debt-to-income ratio is another factor used in evaluating the application. If the ratio of monthly debt payments (including the proposed mortgage) to the monthly income is greater than 41 percent, there must be compensating factors that justify approval of the loan. If the ratio is greater than 45 percent, approval by the Chief of VA's Loan Processing section is needed. If the ratio is greater than 50 percent, approval by VA's Loan Guaranty Officer is needed in addition to that of the Section Chief.

FHA-insured loans must be underwritten in accordance with accepted practices of prudent lending institutions and FHA requirements. The FHA credit analysis worksheet is used to examine the applicant's personal and financial status, monthly shelter expenses, funds required for closing expenses, effective monthly income, and debts and obligations.

As a general rule, the applicant's prospective housing expenses should not exceed 38 percent of net effective income (income less Federal taxes). If the ratio exceeds 38 percent, compensating factors, such as savings history and past credit management, should be presented.

The applicant's total obligations should not exceed 53 percent of net effective income. In other words, the applicant's residual income should be 53 percent or more of net effective income. Again, compensating factors should be evident if this condition is not met. The residual income is also evaluated in terms of its adequacy to meet the present and future needs of the family, given the number and age of its members.

Since August 1986, names of applicants for FHA-insured loans are to be checked against the most recent list of "problem mortgagors." These are those borrowers who (1) have been reported as delinquent for 90 days or more on an existing FHA-insured mortgage, or (2) were borrowers under an FHA-insured mortgage on which FHA has paid an insurance claim during the preceding three years. These applicants are to be automatically denied credit unless the delinquencies have been cured or extenuating circumstances are shown. Credit is automatically denied to applicants whose credit report indicates a delinquency of 90 days or more on a non-FHA-insured loan, or foreclosure on such a loan in the past three years.

FORECLOSURE PROCEDURES

The VA encourages lenders to extend reasonable forbearance when a borrower becomes unable to meet the terms of a loan. VA regulations give lenders broad discretion to extend the loan term, recast the loan, or accept partial payments for borrowers in distress. If a lender is unable to induce a veteran to cure the default, the lender notifies the VA of its intention to foreclose the loan. The veteran is advised to sell the home to avoid foreclosure.

Lenders are encouraged to obtain a deed-in-lieu of foreclosure when it is legally feasible. Under a deed-in-lieu of foreclosure the veteran gives up all rights to the property and often has no further obligation to the VA. Under a foreclosure the veteran will owe VA if the property sells for less than the veteran's indebtedness.

The foreclosure or deed-in-lieu of foreclosure is carried out in accordance with requirements of State law in the area where the property is located. After foreclosure the VA has the option of (1) paying the guaranty and letting the lender dispose of the property or (2) acquiring the property and paying the lender for costs incurred in terminating the loan if this will reduce the guaranty liability. In most cases VA acquires the property.

Federal law and VA regulations provide that the veteran who defaults on a VA-guaranteed loan becomes indebted to the Government for the amount of the guaranty that is paid to the lender. On average, less than 3 percent of this "veteran's indebtedness" is repaid.

VA regulations do not require that the property be vacant when it is conveyed to VA.

Lenders are expected to attempt to avoid foreclosure and to use accepted methods of forbearance where feasible. If default is due to circumstances beyond the borrower's control, special forbearance relief may be available. The lender and borrower may enter into a written forbearance agreement which (1) extends the loan term, (2) recasts the loan, or (3) increases, reduces, or suspends regular mortgage payments for a specified period.

FHA is required to accept the assignment of a defaulted mortgage when there is reasonable prospect that the borrower will be able to resume full mortgage payments after a temporary period (36 months or less) of reduced or suspended payments.

If the borrower cannot or will not resume mortgage payments, the lender is required to take steps to acquire the property. The borrower is given the opportunity to complete the sale of the property to avoid foreclosure. The lender is encouraged to consider accepting a deed-in-lieu of foreclosure from a borrower with a hardship which makes homeownership difficult or impossible.

As a last resort, foreclosure is initiated. The foreclosure or deed-in-lieu of foreclosure is carried out in accordance with State law in the area where the property is located. After foreclosure the property is conveyed to FHA and the insurance claim is paid to the lender. Generally, the borrower has no further obligation to the lender or FHA.

In general, property must be vacant and free of personal property when conveyed to FHA. With FHA approval, tenant-occupied property may be conveyed and, in limited cases, the property may be occupied by the former owner.

ACQUISITION AND LIQUIDATION OF FORECLOSED PROPERTY

At a foreclosure sale, anyone may bid on the property. In most cases the lender who holds the loan is the successful bidder. VA usually pays the lender for costs incurred, pays the loan balance, and takes title to the property. VA will accept title to property that is occupied or damaged and will accept title at the end of the foreclosure period even though the redemption period for the borrower has not expired. The redemption period is the period, required by State law, during which a borrower may pay all outstanding debts and retake possession of the property.

After expiration of the redemption period the property may be offered for sale to the public. An open listing establishes acceptable terms and conditions. Sealed bids are accepted for a period of one to two weeks. The successful purchaser may pay cash, secure private financing or obtain a direct loan from VA (referred to as "vendee loans"). Under current law, between 50 and 65 percent of property sales may be financed with vendee loans, and 5 percent downpayments may be required.

To offset the cash expenditures of property acquisition and resale, VA packages the vendee loans in sizable blocks and sells them to investors. The loans may be sold with or without recourse. When loans are sold with recourse, VA guarantees the purchaser that the agency will buy back the loans if the borrowers default. Under current Administration policy, all vendee loans are sold without recourse.

VA acquired 36,336 homes and sold 34,091 during FY 1987. Vendee loans financed 22,563 of the sales. At the end of FY 1987 VA had an inventory of 22,584 acquired properties.

If the lender holding the loan is the successful bidder at the foreclosure sale, the lender will convey the property to FHA. The loan balance and the insurance claim filed by the lender is paid by FHA. Generally, FHA will not accept title to property unless the redemption period for the borrower has expired and the property is vacant and free of damage by fire, earthquake, flood or tornado.

When FHA has obtained clear title to the property, it may be offered for sale to the general public. FHA provides an open listing of all properties that are ready for sale. The listing establishes the acceptable terms and conditions. The property may be offered with FHA-insured financing available or it may be offered as-is with no warranty and no FHA-insured financing available. Sealed bids are accepted for a period of ten calendar days. Offers from prospective occupants are given priority over offers from investors.

FHA acquired 70,057 homes and sold 62,691 during FY 1987. At the end of the fiscal year FHA had an inventory of 47,648 acquired properties.

PROGRAM STATISTICS

From 1944 through September 30, 1987, the VA home loan guaranty program has provided credit totalling $301 billion which has guaranteed more than 12.7 million home loans. More than 8.6 million of these loans have been repaid in full. Nearly 4.5 percent of the loans have resulted in foreclosure. In FY 1987 the VA guaranteed nearly 474,400 loans with a mortgage volume of nearly $35 billion. The average loan was $73,300.

From 1934 through September 30, 1987, the FHA has written $365 billion in insurance on 14.2 million loans. Nearly 8.9 million of these loans have been repaid in full. Nearly 6.3 percent of the loans have resulted in foreclosure. In FY 1987 the FHA insured more than 1.3 million loans with a mortgage volume of more than $82.6 billion. The average loan was $62,500.

APPENDIX

TABLE 1. Originations of Mortgages on 1-4 Family Homes by Loan Type
($ billions)

Year	Federal		Conventional		Total Loans
	FHA	VA	PMI*	Non-Insured	
1978	$ 14.6	$ 16.0	$ 27.3	$ 124.2	$ 182.1
1979	20.3	18.8	25.3	119.2	183.6
1980	15.0	12.1	19.0	85.1	131.2
1981	10.5	7.5	18.1	59.6	95.7
1982	11.5	7.7	18.8	56.5	94.5
1983	28.8	18.9	42.4	109.7	199.8
1984	16.6	12.0	63.4	109.7	201.7
1985	28.4	15.6	50.5	146.5	241.0
1986	62.0	30.9	46.1	313.5	452.5
1987	51.2	21.9	44.5	330.0	447.6

* Loans with private mortgage insurance.

Source: U.S. Department of Housing and Urban Development.

TABLE 2. VA Acquisition and Disposition of Foreclosed Property
(Units)

Fiscal Year	Homes Acquired	Homes Sold	Homes Redeemed	Inventory End of Year
1978	15,499	15,676	253	11,255
1979	13,077	14,658	259	9,415
1980	11,549	11,780	207	8,977
1981	13,326	10,645	211	11,447
1982	16,656	10,775	164	17,164
1983	21,411	18,550	153	19,872
1984	24,277	22,144	175	21,830
1985	25,375	28,399	165	18,641
1986	29,899	27,841	186	20,513
1987	36,336	34,091	174	22,584

Source: U.S. Veterans Administration.

TABLE 3. FHA Acquisition and Disposition of Foreclosed Property
(Units)

Fiscal Year	Homes Acquired	Homes Sold	Inventory End of Year
1978	24,344	25,464	29,443
1979	19,092	26,212	22,545
1980	14,696	14,061	23,180
1981	14,232	18,073	19,339
1982	18,902	18,876	19,247
1983	27,666	29,267	17,646
1984	34,398	31,963	20,081
1985	45,439	38,035	27,485
1986	54,463	36,387	45,561
1987	70,057	62,691	47,648

Source: U.S. Department of Housing and Urban Development.

TABLE 4. FHA Mortgage Assignments
(Units)

Fiscal Year	Assigned Mortgages	Converted or Liquidated	Inventory End of Year
1978	2,658	811	7,509
1979	3,836	662	10,683
1980	5,017	625	15,075
1981	5,197	576	19,696
1982	3,920	668	22,948
1983	5,969	741	28,176
1984	5,868	1,603	32,441
1985	6,672	1,875	37,238
1986	8,074	1,881	43,364
1987	9,751	2,672	50,443

Source: U.S. Department of Housing and Urban Development.

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STATEMENT OF
R. J. VOGEL
CHIEF BENEFITS DIRECTOR
VETERANS ADMINISTRATION
BEFORE THE
SUBCOMMITTEE ON HOUSING
AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES
SEPTEMBER 7, 1988

Madam Chairwoman and Members of the Subcommittee:

It is a pleasure to appear before you again to discuss the operation of the Veterans Administration's housing program. I have with me Mr. Keith Pedigo, Director, Loan Guaranty Service, and Mr. James P. Kane, Assistant General Counsel.

Your invitation letter requested comments on our efforts to implement Public Law 100-198 and on the Rice Center proposal for a temporary refinancing/interest subsidy program for VA home loans.

The first item I will discuss is VA's implementation of Public Law 100-198 which was signed into law on December 21, 1987. Section 2 of the law extended the one percent funding fee for guaranteed and vendee loans until September 30, 1989, and assured that all surviving spouses of veterans who died from service-connected disabilities would be exempt from payment of the funding fee by exempting those who had eligibility in their own right based on active duty service. Section 3 increased the guaranty amount to $36,000 and established a new formula for the calculation of the guaranty, as follows: for loans of $45,000 or less, 50 percent of the loan is guaranteed; for loans above $45,000, 40 percent of the loan is guaranteed up to $36,000, whichever is less, but not less than $22,500; for manufactured home loans the guaranty is 40 percent of the loan up to $20,000. The amount of any manufactured home loan guaranteed was limited to 95 percent of the purchase price of the property securing the loan. Immediate notice of these provisions of the legislation was provided to our field stations through the computerized electronic mail system. Further information and instructions were sent to the field offices and program participants by an administrative issue published on January 22, 1988. A second notice was published on April 7, 1988, which restated the provisions of Public Law 100-198 along with the technical amendments made by Public Law 100-253, Veteran's Home Loan Program Emergency Amendments of 1988.

Section 4 of Public Law 100-198 requires the VA to provide information and, to the extent possible, counseling to veterans in default as to the alternatives available to foreclosure, what VA's and the veteran's liabilities would be in the event of foreclosure, and the availability of counseling. We have revised our computer generated supplemental servicing letter to include an explanation of various alternatives to foreclosure.

We are making a concerted effort to emphasize servicing at all VA offices. Since Houston has been a depressed area, and has the greatest foreclosure activity for any one office, we feel that a specific program to increase cure ratios would be most appropriate at that office. For that reason, we are conducting a Loan Servicing Pilot Project at our Houston Regional Office using funding provided by Congress specifically for such purposes. Houston's Loan Service and Claims Section was given authority to hire a total of 10 new technical and clerical employees, with the understanding that they would work irregular tours of duty in order to reach more borrowers at home. The project officially began on August 1, 1988, by which time initial training was completed. The project will be monitored monthly through the receipt of detailed reports from the Houston office until July 31, 1989, its scheduled completion date.

Section 5 of the Act provides additional instructions for computing interest on foreclosed loans. The provisions apply to defaults which occur on or after February 20, 1988. Under the new formulas, VA will exclude from the guaranty claim payment and from the no-bid calculation interest which accrues during periods of forbearance granted at VA's request and when the veteran files for bankruptcy. This adjustment will only be made if doing so would result in VA offering to acquire the property when the case would otherwise be a no-bid. In cases where VA is at fault for the delay in foreclosure, for example, by failing to provide bidding instructions in a timely manner, VA will also exclude from the no-bid calculation interest which accrues during the period of delay. VA will allow such interest in the computation of the guaranty claim. Proposed regulations to implement this section have been drafted and are now in the concurrence process.

Section 6a of the Act requires VA to make at least 35 percent, but not more than 50 percent, of its acquired property sales for cash in Fiscal Years 1988 through 1990. A notice dated January 26, 1988, informed stations of the requirement. During the first 10 months of Fiscal Year 1988, 45.06 percent of VA-owned property sales were for cash.

Section 6b of the Act requires that VA provide vendee financing for property repairs. On May 9, 1988, stations were informed of the procedures for originating loans to finance repairs of

VA-owned properties. This program gives timely support to new owners in their efforts to rehabilitate damaged or neglected properties which VA has not been able to repair prior to sale. Stations indicate that this measure has created interest among real estate brokers and purchasers of VA-owned properties.

Section 6b also required a 5 percent down payment on vendee loans. Public Law 100-253 amended this requirement to provide flexibility to the Administrator as to when to require the down payment. The decision is to be based on local market conditions. On April 7, 1988, notice of this provision was provided to our field stations.

Section 7 provides that on interest rate reduction refinancing loans, either present or previous occupancy of the home by the veteran would be sufficient to satisfy the occupancy requirement. If the veteran is in active duty status, present or previous occupancy by the veteran's spouse would satisfy the requirement. On rate reduction loans, the term of the loan may now exceed that of the original loan by up to 10 years, subject to the maximum of 30 years and 32 days. This section limits the amount of all other refinancing loans; i.e., those under section 1810(a)(5) to 90 percent of the appraised value of the dwelling. Section 8 provides that occupancy of the spouse of a veteran on active duty, in certain circumstances, is sufficient to meet the requirements of the law for loans made on or after January 21, 1988. VA field offices and program participants were notified of these new requirements on January 22, 1988.

Section 9a of the Act authorizes VA to sell properties to State and local government agencies and nonprofit organizations which are active in assisting the homeless. On March 25, 1988, an issue was published implementing VA's Homeless Program. A price discount is available to local government agencies and nonprofit organizations who agree to use the properties as shelters primarily for homeless veterans and their families. Stations report that no sales have been made so far under this program. Those who have expressed interest in the program indicate that they plan to use funds from HUD as authorized under Public Law 100-77, the Stewart B. McKinney Homeless Assistance Act of 1987.

Section 9b of the Act authorizes VA to sell acquired properties at a discount to employers who use the properties to train certain unemployed veterans through the Veterans' Job Training Act. The issue implementing this program was published on March 25, 1988. To date, no sales have been reported under this program.

Section 10 of Public Law 100-198 provides detailed and specific limitations concerning the assumption of guaranteed loans. These include a requirement for underwriting of the assumer, automatic release of liability of the veteran in certain cases, a one-half of one percent funding fee applied to the transaction, and the possibility of accelerating the loan if the requirements are not met. These provisions apply to loans for which commitments are made on or after March 1, 1988. They do not apply to loans made prior to that date. Proposed regulations to allow lenders to process assumption of the effected loans are being developed. Pending final publication of the regulations on assumptions, VA has taken responsibility for reviewing the credit and income of transferees and notifying loan holders of the approval or rejection of the proposed transfer. Instructions for processing these cases were released on June 7, 1988, to our field stations.

Section 11 of Public Law 100-198 amended section 1831 of title 38 in two areas. In the area of qualifications of appraisers, the amendment required that fee appraisers successfully complete a written test, submit a sample appraisal, submit recommendations from other appraisers, and that there be a certification of an appropriate number of years experience as an appraiser.

The requirement for successful completion of a written test and submission of recommendations from other appraisers was accomplished by changing the procedures for processing fee appraiser applicants to require a mandatory written test. Previously, written tests were at the discretion of the field station. We also increased the number of testamentary letters required from three to five, with at least two from other appraisers. The mandatory submission of a sample appraisal had been and still is a requirement. A requirement for self-certification on the number of years as an appraiser will be included in an upcoming processing guide. The application form for designation of fee personnel currently requires an experience summary over the signature of the applicant.

In the other area amended by Public Law 100-198, review of appraisals by lenders, we are proceeding with the establishment of the standards, procedures, and required regulations necessary to implement a lender appraisal review system. Initially, we had intended to proceed by implementing the lender appraisal review program by a processing directive with regulations to follow. However, we have been advised by our Office of the General Counsel that because of enforceability issues, and since the statute specifically speaks to regulations, it is necessary that regulations be developed and the regulatory process completed prior to implementation of the lender appraisal review program. The regulations are in process.

Section 12 of the Act exempts VA guaranteed loans from sequestration under the Gramm-Rudman act, effective November 19, 1987. VA field offices have been so advised.

Section 13 requires the Administrator to use State statistics, if available and reliable, in determining minimum residual income requirements. Field stations and program participants have been notified of this provision. To date only one set of statistics was provided for review, and they were not found to be statistically valid or supportable.

Section 14 of the Act authorizes VA to sell acquired properties by listing them with real estate brokers. Property Management has tested exclusive sales agreements at regional offices in California and Texas. An administrative issue, dated August 9, 1988, explained the policy of NAR (National Association of Realtors) regarding the inclusion of Government-owned properties within MLS (Multiple Listing Service) listings and the publication of separate lists of Government-owned properties for distribution to local NAR members. This issue encourages stations to contact local NAR boards about providing VA-owned property sales listing information to member brokers in a format similar to their MLS.

As you can see Madam Chairwoman, the majority of the provisions of Public Law 100-198 have been implemented, with the remainder being in the regulatory process.

Madam Chairwoman, we have reviewed the Temporary Refinance/Interest Subsidy Program developed by the Rice Center of Houston, Texas, and appreciate the time and effort which has gone into its development. We also share the concern of all parties with respect to the current economic situation in the

Houston area and its effects on veteran homeowners and the community at large. We believe, however, the proposal has serious drawbacks due primarily to its underlying assumptions.

The study focuses on the handling of delinquent home loans by VA and the loan holder. It proposes, as a first step, that the amount of the loan delinquency be either capitalized by the holder (which, in effect, constitutes a reamortization of the loan) or set aside in a separate capital account by the holder.

Capitalizing or ballooning the account delinquency has the advantage of giving the borrower a fresh start by eliminating the need to make payments on an arrearage along with the regular monthly installments. Such action is often effective in helping a borrower to avoid foreclosure and may be taken by loan holders under current VA regulations. However, the proposal assumes that loan holders would be willing to capitalize and reamortize delinquent loans and that such "refinanced" accounts would remain in existing mortgage pools guaranteed by the Government National Mortgage Association (GNMA). It is our understanding that a GNMA loan must be repurchased from the pool, at par, before it can be modified and that, once modified, it cannot be placed into the same GNMA pool. We have found that holders are generally not receptive to VA requests to consider extension or reamortization in order to cure defaults precisely because most GI loans are pooled through GNMA. They have been reluctant to repurchase them for purposes of reamortization. There have been some situations in which holders have found other secondary market sources for reamortized loans, and further exploration of possible markets by the Rice Center and loan holders with portfolios in the Houston area may be productive.

This leaves the option of establishing separate capital accounts to eliminate delinquencies and implement the "refinancing" aspect of the proposal. VA would encourage loan holders to take such action whenever it would appear to be an effective measure to prevent foreclosure. Assuming the same $58,000 loan balance at 12 percent interest and a monthly principal and interest installment of $596.60 presented by Rice Center, and assuming an additional $120 monthly escrow requirement to provide for taxes and insurance, making a total monthly payment of $716.20, loan holders would have to invest three to six times this amount in each capital account which they established in order to complete the "refinancing." In other words, if a lender were to use this option in 200 cases, it would have to invest between $429,720 and $859,440 for an indeterminate period of time. The Rice Center does not address the issues of whether this account would accrue interest or when the "refinanced" amount would have to be repaid. These matters should be considered in any further studies.

Once the holder has completed the "refinancing" of a loan, VA would be required to subsidize the borrower's payments for a fixed period of time in order to lower them to a level which would be consistent with the borrower's ability to pay. Using the sample loan presented by the Rice Center, VA would pay between $3,118.08 and $15,345.60 to subsidize the borrower's payments for a period of 24 to 48 months. The VA payment would be established as a separate obligation of the borrower, and would have to be repaid when the home was sold or the primary loan was paid in full. While the proposal indicates no interest would accrue on this debt, we must point out that under the law VA does not make interest-free loans or advances on our guaranty liability. Nevertheless, for the purposes of analyzing the costs and benefits of the proposal, we will accept the Rice Center's assumption.

The critical finding of the Rice Center is that VA incurs an average loss of $23,494 for each Houston area foreclosure, and that by investing in an interest subsidy to the homeowner, VA could be instrumental in preventing that foreclosure. VA's immediate investment would be between $3,118.08 and $15,345.60, which is considerably less than the amount of the projected foreclosure loss. Based on this finding alone, it would seem that the Government should invest in the subsidy aspect of the "refinancing" program. Unfortunately, however, the large amount of projected savings is based on three broad "best case" assumptions:

1. All borrowers who participate in the subsidy program will eventually reinstate their accounts and avoid foreclosure.

2. The subsidy would only be invested in loans which would otherwise be foreclosed.

3. VA will continue to incur an average loss of $23,494 on properties acquired in the Houston market.

In contrast to these assumptions, we have found that it is frequently difficult to identify precisely which loans may be salvaged through an assistance program and which loans may not. Moreover, the existence of a "refinancing" subsidy program on the lines proposed by the Rice Center will, in and of itself, likely worsen the default situation in the Houston area. We believe that knowledge of the availability of this sort of assistance would reduce borrower incentives to maintain their loan obligations and lead to an increase in serious defaults. In addition, VA has experience in refunding seriously delinquent loans where supplemental servicing indicates the borrower will have the potential to maintain the obligation but the loan holder has declined to extend further forbearance. Based on this experience, we project a maximum reinstatement rate of 50 percent on loans which would be foreclosed without financial assistance to the borrowers. Accordingly, we suggest the following assumptions are more realistic:

1. Out of the 2,730 cases included in Table 2 of the Rice Center's analysis, 2,000 may qualify for participation in the program.

2. Fifty percent of these loans will be reinstated and 50 percent will be foreclosed after the subsidy expires.

3. An additional 2,000 borrowers who would cure their defaults without VA assistance will participate in the program (presently, borrowers cure over 50 percent of defaults reported to our Houston office without direct financial assistance; some, but not all, of these borrowers would take advantage of the subsidy program).

For the purposes of analysis, two additional assumptions should be made. These assumptions are both consistent with the data used in the Rice Center study:

1. The average subsidy will reduce the loan interest rate to 7 percent and the average subsidy duration will be 36 months, resulting in a total investment of $7,585.92 by VA.

2. The average delinquency will be six installments, at the time of refinancing, which would require an investment of $4,297.20 ($716.20 X 6 = $4,297.20) by the holder. It should be noted that, if this amount were capitalized and reamortized as part of the refinancing, instead of being placed in a separate capital account, the loan balance would be increased.

This would increase the amount of the interest subsidy to be paid by VA (interest is greater on a higher loan balance) by $644.78, resulting in a total VA investment of $8,230.70.

Using these assumptions, VA would invest either $7,585.92 or $8,230.50 in 4,000 cases. Our total outlay would be between $30,343,680 and $32,922,000. Our potential savings would be the avoidance of 1,000 foreclosures with an estimated loss of $23,494 per foreclosure, or $23,494,000. This would be offset to some extent by an increased loss on the 1,000 loans which would eventually be foreclosed despite the subsidy. Given the combination of higher account indebtedness on these loans (due to capitalization of the arrearage) and lower VA guaranty liability (due to $7,587.92 having been advanced by VA), foreclosure on these loans will likely result in VA paying a maximum guaranty and not accepting conveyance of the property.

Our additional loss would be $4,006 on each ($27,500 guaranty-$23,494 present loss=$4,006) and $4,006,000 on 1,000 loans. This would result in a net savings of $19,488,000, as opposed to $23,494,000.

One other factor which needs to be considered is the cost of the subsidy to the Government. The VA already provides a rather large subsidy to veterans in terms of a no-down-payment loan. If this additional subsidy runs for a 3-year period with a 3-year payback by the borrower after expiration, the Government's actual investment is the dollar outlay plus the cost of obtaining those dollars. With simple interest taken at 9 percent annually, the additional cost for the 3-year advance would be 27 percent of the actual cash outlay; i.e., between $8,192,794 and $8,888,940. This further reduces the potential savings to approximately $11,000,000. Since the Rice Center's proposal does not specify any timed payback period, the actual subsidy cost could be considerably greater.

A savings of $11,000,000 would constitute a substantial benefit, but there are two additional reasons why even this amount may be overestimated. The Rice Center study is based on an average loss of $23,494 experienced by VA in disposing of existing property inventory. In fact, much of this inventory was acquired by VA during a period of rapidly declining market values in the Houston area. The average loss figure reflects the erosion of property values from the time VA obtained liquidation appraisals which justified our determination to accept conveyance to the time the properties were resold. We believe our current liquidation appraisals are producing value estimates which more accurately reflect market conditions. In addition, staffing shortages in the Property Management Section of our Houston office have been addressed, and reports indicate the real estate market in the area is stabilizing. Under these circumstances, we project that VA's losses on property acquired in the Houston area at this time and in the future will be significantly less than those experienced in the past. Such a reduction in losses would further offset any savings estimate which might result from adoption of the Rice Center's proposal.

In summary, our review of the Rice Center's proposal indicates that there are more factors which need to be considered than those set forth in their analysis. First, it will be necessary to find a means of re-amortizing delinquent loans which will be acceptable to the secondary markets as well as loan holders before VA would be in a position to consider payment subsidies. Secondly, in addition to the disincentive which would be created by the subsidy, we also note that the key variable in any cost-benefit analysis is the projected VA loss on properties which will be acquired in the future. The situation in Houston appears to have changed sufficiently to support the expectation that our performance in this area will improve.

Madam Chairwoman, this concludes my statement. I would be pleased to answer any questions that you or any member of the Subcommittee may have.

STATEMENT OF FANNIE MAE
BEFORE THE
SUBCOMMITTEE ON HOUSING & MEMORIAL AFFAIRS
OF THE
HOUSE COMMITTEE ON VETERANS' AFFAIRS
BY
DALE P. RIORDAN
EXECUTIVE VICE PRESIDENT, ADMINISTRATION and CORPORATE RELATIONS

SEPTEMBER 7, 1988

Madame Chairwoman and Members of the Subcommittee, my name is Dale Riordan. I am Executive Vice President for Administration and Corporate Relations at Fannie Mae. Fannie Mae is the nation's largest investor in American home mortgages. We have a unique corporate mission which is to be the U.S.A.'s housing partner in providing financial products and services that increase the availability and the affordability of housing for low-, moderate-, and middle-income Americans. We do business only in the secondary mortgage markets, and in all economic environments.

Thank you for inviting me to discuss with you the state of the housing finance market over the last couple of years and, the acquisition and disposition of foreclosed properties. I will briefly address the former first, then move on to a discussion of our foreclosed properties strategy.

HOUSING MARKETS: RECENT EXPERIENCE

Before briefly recounting the past, let me share with you our view of the next year. We believe that both inflation and interest rates will continue to trend higher in the first part of 1989. Around the middle of 1989, however, we expect that a tighter monetary policy will be instituted and economic growth will slow noticeably. This slowdown should bring with it an easing of inflationary pressures and lower interest rates; by yearend, we expect that interest rates will be back down near the levels of mid-1988.

In this environment, housing activity should slow down considerably in the first half of 1989, and 1-4 family mortgage originations are expected to drop as well. The second half drop in rates is expected to produce a pickup in both housing activity and mortgage originations, although for the year as a whole we expect home mortgage originations to be slightly below this year's pace.

The rise in interest rates expected through the first half of 1989 should, in our view, keep the adjustable rate mortgage (ARM) share of the conventional market above 50 percent. Moreover, if experience is any guide, the proportion of ARMs sold in the secondary market -- especially for cash -- should be low during this period of rising rates (although ARM swap activity should remain reasonably healthy). As rates ease back down, however, secondary market sales of ARMs should pick up considerably. The ARM share of the originations market in the second half is expected to fall somewhat.

The major negative factor in today's and tomorrow's markets is the large number of foreclosed properties many of us have been acquiring since the early 1980's. As the Subcommittee well knows from experience with the VA Home Loan Guaranty Program, the problem of REOs (real estate owned) is pervasive. It affects all institutions, particularly banks and thrifts in the Southwest. In fact, many of the current problems experienced by the Federal Savings and Loan Insurance Corporation (FSLIC) in closing insolvent thrifts involve foreclosed properties. Foreclosed properties are owned by many mortgage institutions: Fannie Mae; the Federal Home Loan Mortgage Corporation (Freddie Mac); the Federal Housing Administration (FHA); the Veterans Administration (VA); savings and loans; commercial banks; and mortgage banks.

Fannie Mae acquired the properties we own because we held the mortgages of individual borrowers who could not meet their obligations -- primarily because of economic conditions like the 1981-1982 recession, the rapid decline in housing inflation in this decade, and the depressed conditions that still affect the nation's "energy belt." In addition, we were and are one of the largest investors in Texas. Despite the upheaval that state has been through, we have continued to purchase billions of dollars of mortgages there every year. We believe it is our responsibility to continue serving all housing markets, not just the good ones.

What happened in these markets? Why all these foreclosed properties? The housing industry was plagued by high interest rates in the early 1980's. We suffered a severe recession which was characterized by high unemployment, factory closings and bankruptcies. The upper Midwest and the industrialized Northeast were particularly hard hit because of the depressed economy. Growing foreign competition hit hard the steel, rubber, glass and automobile industries. High interest rates also depressed the farming states. Economic recovery in these areas was delayed because of the tremendous strength of the U.S. dollar which made U.S. goods and agricultural commodities less competitive in the world market.

As a result, price increases slowed dramatically in the midwest and northeast during this time. In fact, in 1982, existing home prices fell 0.3% in the Northeast and rose by only 1.5% in the Midwest. [Attachment I]

As the Northeast and Midwest coped with the recession, Alaska and the Southwest took advantage of the oil boom. The price of domestic oil rose from $9.00 a barrel in 1978 to well over $30 a barrel in 1981. Unemployment in states like Texas, Oklahoma, Louisiana, Colorado and Alaska were well below the national average. These areas experienced incredible growth and based upon forecasts of higher oil prices, real estate speculation was rampant.

From 1982 to 1985, the price of oil hovered between $24 and $28 a barrel. However, in 1986 when OPEC fell apart, oil decreased to $12.51 a barrel and the "bottom" fell out of the energy industry. A severe recession in the energy patch states began and continues in many areas to this day. In 1981, for example, the median sales price for an existing home in Houston, Texas was $72,700; in 1983, the median sales price had increased to $79,900. However, by 1986, the median price had fallen to $69,900; and, in the first quarter of 1988, the median price was $60,200, a decline of 25% percent from 1983.

Rising unemployment and decreasing property values are responsible for a record number of home mortgage foreclosures since 1983. Areas like the COLT states (Colorado, Oklahoma, Louisiana, Texas) and Alaska experienced a record number of foreclosures for several reasons: a drop in oil prices that spurred high unemployment and lowered property values; overbuilding and speculation; and, creative financing exacerbated by bad appraisals.

Fannie Mae and others had invested heavily in these areas through the late 1970's and early 1980's. Texas, for example, was one of our largest volume states during those years. Consequently, we began to experience rapidly rising foreclosure rates when the Southwest faltered. In 1984, we acquired 5,800 foreclosed properties. This number of acquisitions has steadily increased to 10,700 in 1985; 13,700 in 1986; and 16,700 in 1987. However, we have been very successful in selling these properties. Although the number of foreclosures has increased over the past several years, the overall inventory as a percent of acquisitions has decreased from 91% at the end of 1984 to 57% at the end of 1987; and, we expect it to be even better at the end of 1988.

ACQUISITION AND DISPOSITION OF FORECLOSED PROPERTIES

Needless to say, we do not want to own foreclosed properties. Our goal is to keep people in homes. Foreclosed properties wreck families' lives, cost money to care for and manage, and can cause neighborhoods to deteriorate. Therefore, Fannie Mae recognizes the important financial role the acquisition and disposition of these properties play for families, the company and the neighborhoods in which the homes are located.

We are faced with three obligations. The first is to minimize the recurrence of foreclosure which is the function of good underwriting. Individual foreclosures are assessed based on underwriting standards. In situations where it appears that Fannie Mae is accepting a disproportionately greater risk of default, underwriting guidelines are usually changed. For example, we made a number of significant adjustments in 1985 to our loan product and underwriting standards to increase the likelihood that a borrower would have the ability to repay the loan, as well as ensure the security value of the property in the event the borrower or lender had to sell the home to repay the mortgage.

These actions included the elimination of graduated payment adjustable rate mortgages, more conservative credit underwriting standards for adjustable rate mortgages (ARMs) and high loan-to-value (LTV) fixed-rate mortgages, limits on multiple loans to one investor, restrictions against ARMs with negative amortization, limits on property seller contributions, and better information in the property appraisal process.

We believe that these changes have already made a difference in the performance of the loans we have purchased since 1985. In addition, we regularly monitor all areas of the country to see if we can spot the next trouble area, not so we can pull out of that market -- we do not do that. Rather, we may make subtle adjustments to our underwriting standards or our pricing policies to minimize future risk.

The second challenge is to organize a business unit to manage the problem. Until 1984, most of our foreclosed properties were acquired and sold by the private mortgage insurance (MI) companies because they were able to reduce their losses by acquiring the properties and reselling them. However, with the increased number of foreclosures and the related decline in property values in the COLT states, most MIs opted to pay off the claim and leave us with title to the property. This situation became our "no bid." Fannie Mae was forced to establish an in-house division devoted exclusively to the management and sale of foreclosed properties. Presently, this division has sales staff in each of our regional offices with oversight by a Senior Vice President here at the corporate headquarters in Washington, D.C.

Finally, the third and most economically crucial challenge is to minimize the loss on sale of properties. Our strategy is to sell these homes as quickly as possible in order to minimize the high cost of managing and holding the properties. Over the past several years, we have decreased our holding time from 10 months in 1985 to 7 months in 1987.

We have developed several ways to accomplish this strategy. Fannie Mae's sales program is maintained primarily through an established network of real estate brokers. Working with these real estate sales professionals, Fannie Mae tries to ensure that its homes are in good condition -- and usually repaired to enhance marketability. In many cases, our selling program includes improvements to the house such as painting and new carpeting. We believe the return on repaired properties is two fold: it usually provides a higher market value for the individual property than the cost of the improvements; and, it preserves the value of the surrounding properties in the neighborhood.

Fannie Mae prices its properties very competitively, and often offers favorable financing to purchasers. In addition, our sales staff, working in each of our regional offices, know how to close a deal. They respond quickly to offers. They are willing to negotiate, and they follow the sale process through to settlement.

The VA was instructed last year by the Veterans Home Loan Program Improvements and Property Rehabilitation Act of 1987 to list foreclosed properties with real estate brokers. We have found that our relationship with the real estate professional is essential to minimizing losses in the sale of our properties. Therefore, we strongly support the marketing effort of our listing brokers. We offer a toll-free telephone service through which real estate agents can obtain a listing of properties for sale in any area. We have developed marketing materials such as the consumer guide, "How to Buy a Foreclosed Home," and posters for real estate agents. [Attachment II]. We also sponsor frequent advertising on radio and in major newspapers in markets in which we own foreclosed homes.

The key is to build flexibility into the sales program in order to provide individual, geographic tailoring. For example, we have a "lease purchase program" which appears to be similar in purpose to the program suggested by the "Sense of Congress" Resolution in H.R. 5221. Our program is designed to make it possible for potential homeowners with limited funds to purchase a home of their own. In Alaska, for example, the buyer only needs to invest $500 to begin a home purchase program. The remaining funds needed for the down payment and closing costs can be accumulated through a special lease-purchase arrangement where part of the rental payment is applied to the purchase price. [Attachment III].

Variations of this program are being implemented in other states. For example, we instituted this program in Oklahoma in early 1988 and have experienced a very favorable response. It is available to applicants who in good faith intend to lease-purchase the selected property as their personal residence for the foreseeable future. As a general rule, the program is designed for renters with good credit but whose cash on hand is less than the amount needed by a buyer for down payment and closing costs on a regular REO purchase or other purchase. We have also found that many families who inquire about the lease program discover that they are able to purchase our properties without leasing first.

In retrospect, we believe we have been a good corporate citizen, while at the same time protecting the interests of our shareholders. We have enhanced the marketability of our REOs, competitively priced them, and avoided distress sales. Perhaps most important is that a majority of our foreclosed properties have been sold to new owner-occupants.

While some of the oil states seem to be "bottoming out," we expect another two to three years before there is significant improvement in these economies. In the meantime, we will continue to focus our attention on the front-end process where better mortgage products should mean fewer foreclosures in the future.

Let me briefly emphasize this last point. The Subcommittee no doubt is aware of a recent spate of articles concerning the next depression in housing. We are more sanguine than these observers, but we do share their concerns. Some areas of the country -- the Northeast for example -- have experienced robust sales price inflation over the last four or five years. We doubt that will continue, and, in fact, the market has already slowed markedly. Mortgage investors must not ignore these fundamental shifts. They are important. More prudent underwriting in these areas will help prevent significant upheavals tomorrow.

FORECLOSURE PREVENTION

Madame Chairwoman, during this period of high foreclosures, a number of proposals have been made to address this problem before the foreclosure stage. For instance, some have advocated homeownership counseling services. Fannie Mae has actively supported and is a corporate sponsor of the Home Ownership Protective Effort (HOPE). HOPE is a program that provides a full range of counseling and support services to unemployed and underemployed families who are in danger of losing their homes through foreclosure. HOPE has an impressive record of success -- out of nearly 1000 families so far, all with seriously delinquent mortgage before they entered the program, only about 3% have lost their homes through foreclosure.

Others have suggested forbearance or, in the case of the Rice Center proposal, subsidizing the delinquent mortgage payment. The Rice Center has developed what it calls the Temporary Refinancing/Interest Subsidy (TRIS) Program. TRIS provides temporary refinancing for up to 48 months, with the VA making supplemental payment to cover the difference in monthly payments.

We have reviewed the TRIS proposal, and we would like to share with you some of our concerns:

- TRIS does not appear to be intended only for those delinquent borrowers in "financial distress."

- Some foreclosures cannot be prevented by lower payments. In situations where there has been a job loss, lowering the payment may only delay foreclosure. During this period of delay, the value of the property can continue to decline, the result being that the loss is greater than if foreclosure had occurred originally.

- Payment adjustments should be tailored to individual borrower needs. Usually 200 to 300 basis points is enough to salvage those loans that can be saved.

- In the TRIS proposal, it appears that the subsidy payments are ultimately offset against the guarantee amount or acquisition cost of the property. A foreclosure that is delayed for two, three or four years is likely to result in an additional monetary loss to the mortgagee that would not presently occur.

- No interest is accrued until sale of the home or repayment of the loan; therefore, there would be substantial economic opportunity cost.

An alternative may be a tax-exempt bond program. We have been working on various approaches where the tax-exempt proceeds would be used to refinance delinquent or foreclosed VA mortgages. There still are some "bugs," but here is how it could work:

- Delinquent borrowers in danger of foreclosure are identified.

- A determination is made if refinancing at a lower interest rate will enable the borrower to make future payments on a regular basis.

- A Local or State Housing Finance Agency (HFA) sells mortgage revenue bonds in an amount equal to the aggregate principal amount of loans in trouble. These bonds would be sold in the retail market or through private placement. The amount of bonds sold could be increased in size to provide alternative financing for future needs of this type if a Guaranteed Investment Contract (GIC) is entered into to cover principal and interest payments on the bonds prior to bond proceeds being used to refinance the existing mortgages. Any negative arbitrage - the difference between the yield on the shorter-term GIC and the yield on the bonds - would have to be covered by a contribution from the VA or others.

- The mortgage revenue bond proceeds would be used to refinance the existing troubled mortgages at a below-market interest rate. Mortgage rates funded with these tax-exempt bond proceeds are lower because bond buyers do not have to pay federal taxes on the interest earned. These investors are willing, therefore, to take a lower yield and thus, this savings is passed on to the borrower in the form of a lower mortgage rate.

- o Any delinquent payments and any necessary interest rate buydowns, closing costs, etc. could be capitalized and be included in the new mortgage.
- o With lower mortgage rates, the borrower could handle a shorter term mortgage (perhaps 25-years) which would build equity faster to the borrower's and the VA's advantage.
- o Once the troubled loans were refinanced and guaranteed by the VA, the loans could be pooled into Ginnie Mae securities and those securities would be pledged as collateral for the tax-exempt bonds. By virtue of Ginnie Mae's guaranty, these bonds would be rated AAA and could be sold easily in the capital markets.

The actual expense of structuring this type of financing would be far less costly to the VA, the participating lenders, and to the borrowers than the alternative of foreclosure.

One problem with this approach is that under current tax law only first-time homebuyers or persons not owning a home during the previous three years are eligible to participate in the mortgage revenue bond program. Current tax law does exempt homeowners living in economically depressed target areas (Federal definition). However, the above approach will not work unless the "first-time homebuyer" requirement is waived for home owners who are threatened with foreclosure and live in non-target areas.

A more complicated approach designed primarily to deal with the first-time home buyer requirement has been developed by our staff. We would be happy to share the specifics of both these approaches with your staff.

Madame Chairwoman, in closing, I would like to thank you for this opportunity to share with the Subcommittee our experience in handling the acquisition and disposition of foreclosed properties. It continues to be a costly problem for all of us in the mortgage finance sector. However, based upon these experiences, I believe we have been able to develop strategies for a more effective future response to this problem. We are cautiously optimistic that we are "rounding the bend" on our problems in the Southwest. And, we believe that the underwriting standards we have in place today will help us minimize our losses if other areas of the country experience similar recessions.

I would be pleased to answer any questions you or other Members of the Subcommittee may have.

3900 Wisconsin Avenue, NW
Washington, DC 20016-2899
202 752 6740

Dale P. Riordan
Executive Vice President–
Administration and Corporate Relations

FannieMae

Attachment 1

July 18, 1988

The Honorable Marcy Kaptur
U.S. House of Representatives
1228 Longworth House Office Building
Washington, D.C. 20515

Dear Ms. Kaptur:

Your recent letter to David Maxwell requested a variety of comments and information regarding the VA Home Loan Guaranty Program. We appreciate being included in this very important project.

As we have explained to your staff, our experience in this area is with the securitization of mortgage loans and the disposition of foreclosed properties. Therefore, we will defer to VA experts to provide comment on the specific proposals to modify the existing program. However, [illegible] would like to help you with your request for statistics on the level of appreciation which has occurred across the country over the past ten years, and a projection of similar levels for the next ten years.

I have enclosed some tables prepared by our economists that reflect both the median prices and growth rates (inflation rates for housing prices) of new and existing home sales prices, both nationally and regionally, over the past ten years. On the bottom half of the tables, we have supplied forecasts for the United States only; regional forecasts are not available at this time. Note that the figures for 1988 and 1989 are official Fannie Mae forecasts. The figures for 1990-1998 are projections based upon our best estimates of future economic, financial, and demographic trends.

If you need additional information, please call Bill Maloni, Senior Vice President, Government Relations, at 752-7120.

Sincerely,

DPR/jr

Enclosures

Fifty Years of Opening Doors
for American Home Buyers

MEDIAN PRICE OF EXISTING HOMES SOLD

HISTORY:

Year	U.S.	Chg.(%)	Northeast	Chg.(%)	Midwest	Chg.(%)	South	Chg.(%)	West	Chg.(%)
1978	48,700		47,900		42,200		45,100		66,700	
1979	55,700	14.4	53,600	11.9	47,800	13.3	51,300	13.7	77,400	16.0
1980	62,200	11.7	60,800	13.4	51,900	8.6	58,300	13.6	89,300	15.4
1981	66,400	6.8	63,700	4.8	54,300	4.6	64,400	10.5	96,200	7.7
1982	67,800	2.1	63,500	-0.3	55,100	1.5	67,100	4.2	98,900	2.8
1983	70,300	3.7	72,200	13.7	56,600	2.7	69,200	3.1	94,900	-4.0
1984	72,400	3.0	78,700	9.0	57,100	0.9	71,300	3.0	95,800	0.9
1985	75,500	4.3	88,900	13.0	58,900	3.2	75,200	5.5	95,400	-0.4
1986	80,300	6.4	104,800	17.9	63,500	7.8	78,200	4.0	100,900	5.8
1987	85,600	6.6	133,300	27.2	66,000	3.9	80,400	2.8	113,200	12.2
Compound Annual Growth Rate 1978-87:		6.5		12.0		5.1		6.6		6.1

FORECAST:

Year	U.S.	Chg.(%)
1988	89,110	4.1
1989	92,496	3.8
1990	97,121	5.0
1991	101,977	5.0
1992	107,075	5.0
1993	112,429	5.0
1994	118,051	5.0
1995	123,953	5.0
1996	130,151	5.0
1997	136,658	5.0
1998	143,491	5.0
Compound Annual Growth Rate 1988-98:		4.9

Sources: National Association of Realtors (history)
Fannie Mae Economics Department (forecast)

June 30, 1988

MEDIAN PRICE OF NEW HOMES SOLD

HISTORY:

Year	U.S.	Chg.(%)	Northeast	Chg.(%)	Midwest	Chg.(%)	South	Chg.(%)	West	Chg.(%)
1978	55,700		58,100		59,200		50,300		61,300	
1979	62,900	12.9	65,500	12.7	63,900	7.9	57,300	13.9	69,600	13.5
1980	64,600	2.7	69,500	6.1	63,400	-0.8	59,600	4.0	72,300	3.9
1981	68,900	6.7	76,000	9.4	65,900	3.9	64,400	8.1	77,800	7.6
1982	69,300	0.6	78,200	2.9	68,900	4.6	66,100	2.6	75,000	-3.6
1983	75,300	8.7	82,200	5.1	79,500	15.4	70,900	7.3	80,100	6.8
1984	79,900	6.1	88,600	7.8	85,400	7.4	72,000	1.6	87,300	9.0
1985	84,300	5.5	103,300	16.6	80,300	-6.0	75,000	4.2	92,600	6.1
1986	92,000	9.1	125,000	21.0	88,300	10.0	80,200	6.9	95,700	3.3
1987	104,500	13.6	140,000	12.0	95,000	7.6	88,000	9.7	111,000	16.0
Compound Annual Growth Rate 1978-87:		7.2		10.3		5.4		6.4		6.8

FORECAST:

Year	U.S.	Chg.(%)
1988	113,069	8.2
1989	117,931	4.3
1990	125,007	6.0
1991	135,007	8.0
1992	145,808	8.0
1993	157,473	8.0
1994	168,496	7.0
1995	180,290	7.0
1996	192,911	7.0
1997	206,414	7.0
1998	220,863	7.0
Compound Annual Growth Rate 1988-98:		6.9

Sources: Bureau of the Census (history)
Fannie Mae Economics Department (forecast)

June 30, 1988

Attachment II

Fannie Mae Paints The Town.

Which isn't something to just brush off. Because at Fannie Mae, we keep most of our homes looking new and beautiful in ways many of our competitors don't.

We repaint properties that we really think need it.

Both inside and outside.

Which goes to show that a Fannie Mae home, with a couple of new coats, is bound to give you a very warm feeling.

FannieMae

The exact amount of repairs will vary and may be the subject of negotiation between Fannie Mae and the buyer. Equal Housing Opportunity. For a full list of available properties, call 1-800-553-4636.

The Best Housekeeper In Houston.

Attachment III

FannieMae

Realty News

ALASKA LEASE PURCHASE PROGRAM

REAL ESTATE BROKER INSTRUCTIONS

Real Estate Brokers must follow the following procedures when working with the Fannie Mae Alaska Lease Purchase Program (ALPP):

EARNEST MONEY AGREEMENTS

Brokers should prepare earnest money purchase agreements as they always have for consideration by Fannie Mae. The earnest money purchase agreement must also contain the following phrase:

> By signing this Earnest Money Purchase Agreement, BUYER hereby applies for participation in the Fannie Mae Alaska Lease Purchase Program (ALPP). BUYER acknowledges receiving and reading a copy of the ALPP Program Guidelines.

PROGRAM GUIDELINES

All brokers will be provided with printed copies of the ALPP Program Guidelines. Attached to these Guidelines will be a separate "Receipt & Acknowledgement" page. Brokers must have the BUYER sign this page and attach it to the earnest money purchase agreement.

REAL ESTATE COMMISSIONS

Normal Fannie Mae real estate commissions will be paid on these transactions. Commissions will be based on programs/policies in effect at the time the earnest money purchase agreement is signed. ALL real estate commissions will be paid when the closing documents have been RECORDED. Any incentive or bonus programs being advertised by Fannie Mae will apply.

FINANCING

Buyers MUST use one of the Fannie Mae Alaska concessionary financing programs. The earnest money purchase agreement MUST specify the Financing Plan Number, the applicable Fannie Mae Weekly Bulletin Number, the interest rate, and the amortization period desired by the buyer. ALL ALPP loans will be processed by the National Bank of Alaska.

LEASES

ALL ALPP leases in Anchorage will be administered by ROSE PROPERTIES. The lease service fee is $50.00 per monthly lease payment collected.

Any questions relating to this program should be directed to Jim Thorsness, the Fannie Mae Property Disposition Representative responsible for the administration of this program. He can be reached in the Anchorage Fannie Mae office at 907-561-0828.

FannieMae

Realty News

ALPP

ALASKA LEASE PURCHASE PROGRAM
INFORMATION PACKAGE

This package contains the following items:

1. A copy of the ALPP Program Guidelines.
2. A "Receipt & Acknowledgement" page to be signed by a prospective buyer wanting to participate in the ALPP.
3. A copy of the Occupancy-Lease Agreement used with the ALPP. This copy is for information purposes only.

Any questions concerning details about the ALPP can be directed to any real estate broker or to Mr. Jim Thorsness, the Fannie Mae Property Disposition Representative responsible for the administration of the ALPP.

FANNIE MAE - ALASKA
ALASKA LEASE PURCHASE PROGRAM

PROGRAM GUIDELINES
January 4, 1988

PROGRAMS PURPOSE

The Alaska Lease Purchase Program (ALPP) is designed to make it possible for potential homeowners with limited funds to purchase a home of their own. Using the ALPP, buyers only need to invest $500.00 to begin a home purchase program. The remaining funds needed for the down payment and closing costs can be accumulated through a special lease-purchase arrangement.

QUALIFYING PROPERTIES

All Alaska Fannie Mae REO condominiums, townhomes and zero-lot-line homes qualify for purchase using the ALPP.

WHO QUALIFIES

This program is available to applicants who in good faith intend to lease-purchase the selected property as their personal residence for the foreseeable future. The program is **NOT** designed for individuals who have sufficient cash on hand to qualify for a regular Fannie Mae direct loan. As a general rule the program is designed for those whose cash on hand is less than 125% of the amount needed by a buyer for down payment and closing costs on a regular Fannie Mae REO purchase and direct loan.

LOCATING A PROPERTY

A potential homeowner wanting to use the ALPP must first select the property they want to own. All Fannie Mae REO properties are listed with local real estate brokers and are listed in MLS. A buyer should use the real estate agent of their choice.

After a home has been selected, the potential buyer must sign an earnest money purchase agreement to make an offer on the property. A minimum $500.00 earnest money deposit is required. The respective Fannie Mae listing broker will present this offer to Fannie Mae for consideration.

Upon receipt of the earnest money purchase agreement offer, Fannie Mae will determine if the proposed buyer is qualified for the program (see above). If qualified, Fannie Mae will accept or further negotiate the buyer's offer. If an agreement is reached, it will be subject to the buyer qualifying for a Fannie Mae direct loan under normal direct loan underwriting.

Total funds needed for closing -

Less:	$500.00 Earnest Money Deposit Other available funds
Add:	Lease Service Fee Required Deposits, etc.
Equal:	Total funds to be collected
Divided by:	Number of months of lease term
Equal:	Monthly lease payment

Under NO circumstances will the monthly lease payment be less than the first years monthly mortgage payment (PITI) as calculated by the lender.

A designated property management company will collect the monthly lease payments and administer the lease for Fannie Mae. When all lease payments have been collected the property management company will notify Fannie Mae and the lender that all funds have been received for close of escrow. The accummulated funds will be transferred to the lender who will then proceed to prepare all documents needed for closing. Closing will be scheduled to occur immediately after the final lease payment has been received from the buyer.

LEASE AGREEMENT

Fannie Mae will utilize a standard lease agreement for use with the ALPP. In addition to the usual lease provisions, the lease agreement will specify how lease payments are being allocated.

SPECIAL LEASE PROVISIONS

The buyer is responsible for paying all utility bills and monthly condominium fees or homeowner association dues which are attributable to the lease term.

OCCUPANCY

The buyer will be permitted to occupy and lease the property only after the lender has notified Fannie Mae that the buyer is qualified for their mortgage loan, and the lease agreement has been signed.

FAILURE TO CLOSE ESCROW

After a buyer occupies a property under the ALPP, and if the transaction does not close, FOR ANY REASON, then the $500.00 earnest money deposit will be forfeited to Fannie Mae. ALL lease payments made during the lease term will be retained by Fannie Mae. All lease service fees will be retained by the designated property management company.

MISCELLANEOUS PROVISIONS

Buyers are encouraged to contribute as much cash as possible toward the purchase of their desired property and to keep lease terms as short as possible.

b. To pay SELLER a monthly lease payment of $ ________________ as compensation for use of subject property. The monthly lease payment will be allocated as follows:

$ ____________ Mortgage Loan Funds

$ ____________ Lease Service Fee

$ ____________ Total Lease Payment

c. The lease term will be for a period of ____ months. The first monthly lease payment is due and payable on __________, 19___ and the final lease payment is due and payable on _________, 19____.

d. All monthly lease payments are to be made to Rose Properties, who will hold all payments in a trust account until close of escrow.

e. BUYER(S) will obtain and pay for all utilities attributable to the subject property during the lease term, prorated as of the start of the lease term.

f. BUYER(S) will pay for all homeowners association fees and/or condominium dues attributable to the lease term, prorated as of the start of the lease term.

g. BUYER(S) will have all utilities and HOA condo dues put in their own names for the lease term.

h. BUYER(S) will maintain any heating, sewer, plumbing and electrical systems and any built-in appliances and equipment in a normal working manner; keep the subject property water tight; and will maintain any grounds at their expense during the lease term. All maintenance is the responsibility of the BUYER(S).

i. Should the BUYER(S) default under the terms of the Earnest Money Purchase Agreement or this Occupancy - Lease Agreement FOR ANY REASON, then $500.00 of Earnest Monies and all monthly lease payments will be forfeited to and retained by the SELLER. In addition Seller may terminate this Occupancy-Lease Agreement as well as the earnest money purchase agreement.

FANNIE MAE - ALASKA
ALASKA LEASE PURCHASE PROGRAM

RECEIPT AND ACKNOWLEDGEMENT

BUYER(S): ____________________

PROPERTY ADDRESS: ____________________

CITY/STATE: ____________________

LEGAL DESCRIPTION: ____________________

____

By signing this form, the undersigned acknowledges receiving and reading a copy of the PROGRAM GUIDELINES for the Fannie Mae Alaska Lease Purchase Program. I/we understand that this document is not a legal offer or contract, but only a description of the program.

DATE: ____________________

BUYER: ____________________

BUYER: ____________________

STATEMENT OF
RICHARD F. SCHULTZ
ASSOCIATE NATIONAL LEGISLATIVE DIRECTOR
DISABLED AMERICAN VETERANS
BEFORE THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
OF THE
HOUSE COMMITTEE ON VETERANS AFFAIRS
SEPTEMBER 7, 1988

MADAM CHAIRWOMAN AND MEMBERS OF SUBCOMMITTEE:

On behalf of the more than 1.1 million members of the Disabled American Veterans and its Ladies' Auxiliary, I wish to thank you for this opportunity to express our views relative to the implementation of Public Law 100-198, the Veterans' Home Loan Program Improvements and Property Rehabilitation Act of 1987, and a proposal to provide for temporary refinancing of delinquent VA loans.

Before addressing the issues before us here today, we would first like to take this opportunity to commend you, Madam Chairwoman, and the members of the Subcommittee for your outstanding efforts to ensure that our nation's veterans continue to have a viable Home Loan Program to assist them in obtaining mortgage credit without a down payment. Clearly, the oversight and legislative efforts of the Subcommittee over the past 19 months have had a positive impact on the VA Home Loan Guarantee Program.

Public Law 100-198

This law made several changes to the VA's Loan Guaranty Program. These changes include:

* Revising the formula for guaranteeing VA home loans and increasing the loan amount the VA will guarantee;

* Extending the one percent loan fee until September 30, 1989;

* Clarifying loan fee exemptions;

* Requiring the VA, upon receiving notice that a veteran is 90 days in arrears on mortgage payments, to provide the veteran with information regarding alternatives to foreclosure, the liabilities of the VA and the veteran in the event of foreclosure, possible methods of curing the default and, to the extent possible, personal counseling;

* Changing the VA's property acquisition formula;

* Changing the percentage of VA acquired properties that must be financed by the VA;

* Placing limits on vendee loans and authorizing the VA to increase vendee loans by an amount necessary to rehabilitate properties;

* Redefining occupancy requirements for refinancing certain loans;

* Allowing discounts on sales of VA hard to sell foreclose properties to nonprofit organization to use as shelters for homeless veterans and their families;

* Authorizing a 25% discount on foreclosed properties to purchasers who agree to hire veterans through VJTA to rehabilitate these properties;

* Requiring that credit worthiness be made for assumed loans;

* Setting standards for appraisers and authorizing appraisals to be sent directly to lenders who are authorized to make VA loans;

* Exempting the VA Home Loan Guaranty Program from sequestration under Public 99-177; and

* Requiring the VA to list foreclosed properties with real estate brokers.

Madam Chairwoman, as Public Law 100-198 was enacted just over eight months ago, it is difficult to assess its effects on the operation of the VA Home Loan Guaranty Program. We believe, however, that Public Law 100-198, together with other initiatives taken by the Subcommittee to ensure the solvency of the VA's Home Loan Guaranty Program, will ensure that the fundamental purpose of the Loan Guaranty Program -- to assist veterans in obtaining mortgage credit without a down payment -- will remain fully intact.

Having said this, we would however, like to comment on the provisions of Public Law 100-198 pertaining to the furnishing of financial information and counseling assistance to veterans whose VA loans are in default status. By addressing this issue, Congress has recognized the importance of curing defaults, thus saving taxpayer dollars and, more importantly, veterans' homes.

Madam Chairwoman, we are aware that the VA has recently issued a circular addressing the need to provide loan servicing to veterans whose loans are in default status. This circular points out that defaults and foreclosures continue to rise at a time when the number of VA personal servicing contacts is declining.

The DAV strongly believes the VA should increase, not decrease, these personal contacts. The VA should make a concerted effort to contact each and every veteran who has defaulted on a VA guaranteed home loan. This will ensure that all avenues have been explored to assist the veteran and protect the best interest of the government.

The VA also recognizes the importance of loan servicing. To quote from their circular on this issue, "reduced personal servicing will inevitably lead to unnecessary foreclosures in cases when communication and/or cooperation between the veteran and the loan holder has broken down. Increased emphasis on personal supplemental servicing is essential to fulfilling VA's goal of assisting veterans to avoid foreclosure and retain their homes. Eliminating avoidable foreclosures will result in a corresponding reduction in claim and acquisition payments, costs which VA can ill afford."

This circular goes on to note that when a default is soluble, efforts must be made to contact the veteran to perform personal supplemental loan servicing. Also noted was the fact that some holders of VA loan guarantees are not performing adequate servicing which may be causing some foreclosures that could otherwise be avoided.

Madam Chairwoman, we believe that Public Law 100-198 goes a long way in assisting the VA to better manage its Home Loan Guaranty Program. And, as stated previously, we strongly support personal contact by the VA to help cure loan defaults. However, we do not believe that the provisions of Public Law 100-198 instructing the VA to do more with respect to loan servicing go far enough.

We are aware that the VA has issued a circular on the subject of loan servicing and has instructed their regional offices to do more in this area. However, as we understand, to date the only additional efforts being taken to better service veterans' loans is a form letter sent to those veterans whose loans are in default status. This we believe is woefully inadequate.

Madam Chairwoman, we believe that one of the major problems affecting the operation of the VA Home Loan Guaranty Program is the fact that it is grossly understaffed. For example, the ratio of the number of properties in VA custody to the number of employees in VA property management is nearly 200 to one, while the national average is 75 to one.

We, therefore, strongly urge the Subcommittee to recommend adequate employment levels so that the VA can provide much needed loan servicing as well as more efficiently operate the Home Loan Guaranty Program to the benefit of veterans and American taxpayers. Perhaps, the VA should establish management teams with sufficient personnel in areas such as Houston, Dallas and other areas experiencing high rates of foreclosures. This is one way in which the scarce resources available to the VA can be best utilized.

* * *

Madam Chairwoman, with your letter of invitation to provide testimony at today's hearing you attached a proposal to provide for temporary refinancing of delinquent VA loans, asking that we comment on this proposal.

The DAV has no National Convention mandate regarding this type of temporary relief for financially disadvantaged veterans. However, I am quite sure, that if individually polled, the majority of DAV members would favor the enactment of legislation to assist veterans who are facing the prospect of having their VA guaranteed loans foreclosed upon by a lending institution. We believe that all reasonable efforts to keep veterans in their homes, while at the same time saving taxpayer dollars, should be given serious consideration.

This concludes our testimony, Madam Chairwoman, again, I wish to thank you and the members of the Subcommittee for allowing the DAV this opportunity to express our views on this important program.

STATEMENT OF
JOHN C. BOLLINGER, ASSOCIATE LEGISLATIVE DIRECTOR
PARALYZED VETERANS OF AMERICA
BEFORE THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
OF THE
HOUSE COMMITTEE ON VETERANS' AFFAIRS
CONCERNING
THE VA LOAN GUARANTY PROGRAM
SEPTEMBER 7, 1988

Madam Chairwoman and Members of the Subcommittee, it is a pleasure for me to be here today to present the views of Paralyzed Veterans of America (PVA) regarding the Veterans Administration's housing program. Specifically, we will discuss the effects and implementation of Public Law 100-198, the "Veterans' Home Loan Program Improvements and Property Rehabilitation Act of 1987."

Prior to our discussion of P.L. 100-198 and several other related issues, PVA wishes to express our sincere gratitude to you, Madam Chairwoman, and Members of the Subcommittee, for your concern for the well-being of this vital benefit program. In addition to the enactment of P.L. 100-198 last December, the mark-up of H.R. 5221 this afternoon demonstrates your dedication to the ultimate success of a home loan program presently in critical condition. Your willingness to study the suggestions of numerous organizations and individuals who share your concern will, hopefully, result in the salvation of a program which continues to enable a veteran to purchase a home with a certain degree of financial advantage and protection.

As we stated before this Subcommittee on June 16, 1988, we believe H.R. 5221, "The Veterans' Home Loan Mortgage Indemnity Act of 1988," represents a good investment in the well-being of the VA's home loan program. We believe the provision to exempt veterans with service-connected ratings of 30% or more depicts a compassionate and proper provision. We also believe that reducing the indemnity fee to 0.75 percent when a veteran makes a 5 percent or more down payment represents an attractive addition to the package. In summary, we are pleased to support this bill.

PVA also wishes to briefly comment on H.R. 4948, a bill directing the American Battle Monuments Commission to restore, operate and maintain the Pacific War Memorial and other historical and memorial sites on Corregidor in the Republic of the Philippines. We commend the Subcommittee's dedication to those who served there. Your mark-up today of H.R. 4948 is consistent with your efforts in the past to make certain that their sacrifices will be remembered with dignity, understanding and sincere appreciation.

Public Law 100-198, "Veterans' Home Loan Program Improvements and Property Rehabilitation Act of 1987"

The enactment of P.L. 100-198 on December 21, 1987, amended Title 38 U.S.C. in numerous beneficial ways. Although the large number of defaults on VA home loans has continued to erode the stability of the program, P.L. 100-198 included several provisions, yet to be fully implemented, which address this situation. This comprehensive legislation includes necessary adjustments for the loan guaranty maximums and much needed direction regarding the fiscal solvency of the program. Most importantly, it addresses the program's dependency on taxpayers' funds while, at the same time, maintains the basic benefit provisions incorporated in the program.

To most veteran homebuyers, the increase in the maximum loan guaranty amount represents the most obvious improvement in the program. The previous limitation of $27,500 served as a maximum guaranty since 1980. As a result of P.L. 100-198, the formula used by the Veterans Administration to guaranty loans has been revised. Maximum guarantees are now more realistic in today's market and therefore more attractive to potential homebuyers. Obviously, the popularity of Chapter 37 benefits plays an important role in the success of the program. While the maximum guaranty has remained stationary over the past eight years, however, housing costs have nearly doubled during that same time period. We believe it would be beneficial to the entire VA home loan program if more frequent assessments of the maximum guarantees resulted in corresponding adjustments of this most fundamental ingredient of the home loan program.

Although P.L. 100-198 mandates numerous provisions, we are pleased to note that the VA has taken action to implement the majority of them. While some of the provisions are still in the regulatory phase, we believe the VA has made good progress toward ultimately ensuring that the intent of Congress is achieved. Coupled with the technical amendments made by P.L. 100-253, the "Veterans' Home Loan Program Emergency Amendments of 1988," the course of the VA's home loan program has been properly altered.

In addition to almost immediate implementation of the increased guarantee amounts, the VA has implemented what we believe to be an important provision to reduce the possibility of default on a VA loan. PVA has long supported the need for increased counseling efforts in the case of delinquent borrowers. Just one day after P.L. 100-198 was signed into law, P.L. 100-202 authorized an additional appropriation of $1 million for FY'88 for counseling assistance to help delinquent borrowers retain ownership of their homes. We believe this is money well spent.

In accordance with P.L. 100-198, we believe the VA is making significant improvement in providing assistance to veterans in danger of losing their homes due to foreclosure. We understand that these veterans are being contacted as soon as their financial problems become apparent. Letters explaining various alternatives to foreclosures are delivered and, where possible, personal counseling appointments are arranged.

We are hopeful that the VA's pilot project at the Houston Regional Office to decrease the number of foreclosures is successful. As you know, the Administration's original budget proposal for FY'89 recommended a decrease of 75 FTEE in the VA Home Loan Program. The Congress has wisely rejected this proposal and, due to funding earmarked specifically for loan servicing, the Houston loan guaranty office has been authorized to hire 10 critically needed personnel. We look forward to the results of this project.

Regarding acquired property sales, it appears that the VA is achieving the requirement set forth in P.L. 100-198. The law now requires the VA to make at least 35 percent, but not more than 50 percent, of its acquired property sales in cash for FY'88 through FY'90. All VA regional offices were notified in January 1988 and approximately 45 percent of such sales have been for cash so far in FY'88.

Regarding the mandated 5 percent down payment on vender loans, PVA believes it was proper to amend this requirement (P.L. 100-253) in order to give the Administrator some discretion depending on economic conditions in a given area.

PVA believes the intent of P.L. 100-198 to assist the homeless represents a compassionate and fiscally responsible response to the plight of homeless veterans and their families. Although the VA reports that no sales have been made so far, we believe that, over time, local government agencies and nonprofit organizations will find these properties to be worthwhile investments.

Rice Center Proposal

The purpose of the Rice Center proposal is to provide a temporary refinancing/interest subsidy (TRIS) program for VA home loans. The main objective of the proposal is to offer an alternative to foreclosure. In keeping with the intent of recent VA home loan legislation, every effort should be made to avoid foreclosure.

Refinancing at low interest rates with VA interest subsidies is a potential answer to the extremely high rate of defaults in areas such as Houston. We are aware of the VA's skepticism regarding the willingness of loan holders to capitalize and reamortize delinquent loans and that such "refinanced" accounts might not remain in existing mortgage pools guaranteed by the Government National Mortgage Association. We support the intent of TRIS but believe additional studies are necessary to clarify some of the issues about which the VA is concerned.

We believe the Rice Center proposal represents a thoughtful and sincere effort to establish program solvency by significantly reducing the numbers of VA foreclosures. This proposal, and others like it, must be thoroughly reviewed by this Subcommittee, staff, veterans' service organizations and the VA in order that we can embellish, when appropriate, the provisions of P.L. 100-198, P.L. 100-253, and H.R. 5221. The process of "fine tuning" these programs as they develop will, we believe, turn the VA home loan program back into a solvent, self-supporting benefit which will enable another 12 million veterans to become homeowners.

Madam Chairwoman, that concludes my testimony. I will be happy to answer any questions that you might have.

STATEMENT OF

JAMES N. MAGILL, DIRECTOR
NATIONAL LEGISLATIVE SERVICE
VETERANS OF FOREIGN WARS OF THE UNITED STATES

BEFORE THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES HOUSE OR REPRESENTATIVES

WITH RESPECT TO

THE "VETERANS' HOME LOAN PROGRAM IMPROVEMENTS AND
PROPERTY REHABILITATION ACT OF 1987"

WASHINGTON, D. C. SEPTEMBER 7, 1988

MADAM CHAIRWOMAN AND MEMBERS OF THE SUBCOMMITTEE:

On behalf of the more than 2.9 million members of the Veterans of Foreign Wars of the United States and its Ladies Auxiliary, I wish to thank you for affording us this opportunity to comment on Public Law 100-198, the "Veterans' Home Loan Program Improvements and Property Rehabilitation Act of 1987". It is both a pleasure and privilege to take part in this discussion on a program which has been so profoundly beneficial to not only our nation's veterans but the nation as a whole. As you know, the Veterans of Foreign Wars is firmly committed to working for the improvement of this invaluable veteran's program.

Madam Chairwoman, at the outset, I would like to commend you for introducing H.R. 2672, a bill which eventually was enacted as P.L. 100-198. The VFW supported this legislation in testimony and was very appreciative of this Subcommittee having been so receptive to our suggestions which we believe enhanced this already worthy legislation.

In our letter of invitation to testify at this hearing, we were asked to comment on the effects and implementation of this new law. As we stated in our hearing of June 23, 1987, we believe the provisions of H.R. 2672 would, in the main, go a long way toward improving the VA's Home Loan Guaranty Program. We still believe this to be the case. Of course, with the enactment of P.L. 100-198 being just nine months ago, we have as yet to receive feedback as to how the new provisions are being received by the veteran community. It is our understanding the Veterans Administration is currently in the process of drafting regulations on P.L. 100-198 which will soon be disseminated throughout the system. The VFW believes that until the regulations are published in the *Federal Register* constructive evaluation of the program will be extremely difficult to obtain. We will continue to monitor the program and, as information becomes available to us, of course share our findings with this Subcommittee.

Madam Chairwoman, we were also asked to comment on proposals which may receive the attention of the Subcommittee during the next Congress. One such proposal is a temporary refinancing/interest subsidy (TRIS) program for VA home mortgages. The VFW has long been concerned with the high foreclosure rates recently being witnessed by the VA and the psychological impact this has on the veteran and his family. A program such as TRIS certainly is worthy of consideration and we look forward to exploring it further in the 101st Congress. It has the potential of not only being a cost-effective alternative to the VA but, most importantly, allowing veterans to stay in their homes during a financial crisis.

Madam Chairwoman, I would also like to take this opportunity to comment on a reoccuring proposal which would repeal the Administrator's authority to establish maximum interest rates. The Veterans of Foreign Wars strongly opposes eliminating the Administrator of Veterans Affairs's current authority to establish the VA home loan interest rate. We view the often posited argument that this authority limits a veteran's ability to negotiate a more favorable rate as specious. The VA established rate is, in fact, only a ceiling which certainly does not disallow a veteran and a lending institution from negotiating a lower mortgage rate. The VA established rate not only provides the veteran with greater parity in an unequal market place, it also serves as a national benchmark providing both the mortgage and the building industries with a degree of stability that they would not otherwise enjoy. We are convinced that eliminating the Administrator's authority to establish an interest ceiling would be a serious mistake, working against the veteran's best interest and seriously jeopardizing a most beneficial program.

Madam Chairwoman, this concludes my testimony. Once again on behalf of the Veterans of Foreign Wars of the United States, I wish to express our thanks to you and the other members of the Subcommittee for holding this hearing. I will be happy to respond to any questions you may have.

1125 Fifteenth Street, N.W.
Washington, D.C. 20005

202-861-6500

Mortgage Bankers Association of America

STATEMENT OF

RONNIE J. WYNN
PRESIDENT
COLONIAL MORTGAGE COMPANY
MONTGOMERY, ALABAMA

on behalf of the

MORTGAGE BANKERS ASSOCIATION OF AMERICA

before the

Subcommittee on Housing
Committee on Veterans' Affairs
United States House of Representatives

Oversight Hearing on

The Veterans' Home Loan Program Improvements and
Property Rehabilitation Act of 1987

and

The Rice Center Proposal

September 7, 1988

Madam Chairwoman and members of the Subcommittee, I am Ronnie J. Wynn, President of Colonial Mortgage Company, located in Montgomery, Alabama, and Vice President of the Mortgage Bankers Association of America (MBA).* Accompanying me today is Linda K. Bumbalo, MBA's Associate Legislative Counsel.

MBA appreciates the opportunity to appear before you today to testify on the effects of implementation of the "Veterans Home Loan Program Improvements and Property Rehabilitation Act of 1987" (P.L. 100-198). Among the many provisions in P.L. 100-198, in which MBA is particularly interested are the changes to the no-bid formula, mandatory underwriting on assumptions of VA home loans, and the new appraisal procedure. MBA will also comment on the Rice Center Proposal, which would provide for temporary refinancing with interest subsidy program for VA home loans.

The Veterans' Home Loan Program Improvement and Property Rehabilitation Act of 1987

The "Veterans' Home Loan Program Improvement and Property Rehabilitation Act of 1987" was a comprehensive and much needed piece of legislation which addressed the concerns of the participants in the VA home loan guaranty program. MBA believes that it is too early to assess the impact of some of the provisions because they have not been in effect long enough to gather and analyze data. Other provisions have yet to be implemented by the Administrator through regulations. However, MBA would like to offer its recommendations about the promulgation of the regulations.

MBA is particularly interested in the changes in the no-bid formula which determine whether the VA or the lender acquires a foreclosed property in cases of VA delays, VA-requested forbearances, and bankruptcies. The foreclosure can be turned into a no-bid during those periods of delay because of the accrual of interest. MBA believes that

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*The Mortgage Bankers Association of America is a nationwide organization devoted exclusively to the field of housing and other real estate finance. MBA's membership comprises mortgage originators and servicers, as well as investors, and a wide variety of mortgage industry-related firms. Mortgage banking firms, which make up the largest portion of the total membership, engage directly in originating, selling, and servicing real estate investment portfolios. Members of MBA includes:

- Mortgage Banking Companies
- Commercial Banks
- Mutual Savings Banks
- Savings and Loan Associations
- Mortgage Insurance Companies
- Life Insurance Companies
- Mortgage Brokers
- Title Companies
- State Housing Agencies
- Investment Bankers
- Real Estate Investment Trusts

MBA headquarters is located at 1125 15th Street, N.W., Washington, D.C. 20005; telephone: (202) 861-6500.

Congress intended in P.L. 100-198 to address specifically those cases where, had the foreclosure been timely and the resulting interest accrual thus not have occurred, the VA would have acquired the property. MBA has urged the Administrator to carry out Congressional intent for stopping the accrual of interest during those delays, and MBA has further recommended that regulations permit the claim payment formula on foreclosure sales delayed for the enumerated reasons to be calculated on a case-by-case basis in order to target those delayed sales that the legislation was designed to help.

The no-bid changes were made effective 60 days after the enactment date of December 21, 1987, and are scheduled to expire on September 30, 1989. Even though it has been more than six months since the law became effective, the Administrator has not even published proposed regulations.

MBA is encouraged by its conversations with the VA that the regulations will be helpful, but is concerned that this slow regulatory process is contrary to the legislative intent of Congress. In addition, there is the issue of retroactive application of the regulations to the effective date of the provision. The longer the VA delays in publishing the regulations, the greater will be the number of foreclosure cases processed since the effective date that will have to be reopened by the VA and the lender. MBA urges that the VA move as expeditiously as possible in releasing its regulations.

MBA also urges the Administrator to move swiftly to implement the provision in P.L. 100-198 that permits appraisals made by VA fee appraisers to be sent directly to VA automatic lenders for making a determination of reasonable value. The Federal Housing Administration (FHA) has had a procedure identical to that envisioned in the legislation dealing with this situation for a number of years. The VA could adopt the FHA procedure and, in fact, implement this provision without setting new standards.

Another provision in P.L. 100-198 that is of great concern to MBA is the mandatory underwriting of assumptions of VA home loans. The VA is currently processing assumptions until regulations are available. Underwriting assumptions is a common phenomenon in the industry; there is no need for a lengthy regulatory process. The FHA implemented a similar provision without regulations.

Of vital concern to MBA is the amount of the fee to be set by the VA that a lender will be able to collect for doing the underwriting for an assumption. During negotiations about the fee with the VA, the VA suggested a fee of $300. A fee of less than $500 would not adequately compensate a lender for the additional work. The normal industry fee for processing an assumption with a credit review is one percent of the unpaid principal balance. The Department of Housing and Urban Development allows a fee of $500 for underwriting an assumption of a FHA loan. MBA estimates that it costs a lender $766 to process an assumption, which is labor intensive. A fee of less than $500 would be below the industry norm.

Also, it is MBA's understanding that the VA will impose a 45-day limit on the time within which a lender must process an assumption application and make the creditworthiness test. Also, any delays by the lender in processing the application could jeopardize the lender's claim under the guaranty. MBA believes that the VA is putting constraints on the lender that the VA itself cannot live up to. The VA faces no punitive or financial sanctions for failure to process a loan application or a request for release from liability within 45 days.

MBA is pleased that the 1 percent funding fee was not increased when it was extended through September 30, 1989, in P.L. 100-1988. While MBA opposes user fees for the home loan program because it is an entitlement, we also recognize the necessity for this temporary measure as a source of funds for the Loan Guaranty Revolving Fund (LGRF). MBA is concerned about the potential loss of this fee if the Mortgage Indemnity Fund proposal is enacted. The existing home loan program would be deprived of the 1 percent fee income, making it more dependent on appropriations in the future.

The increase in P.L. 100-198 in the maximum guaranty amount of $36,000 was long overdue and appreciatively received. It will assist veterans living in high-cost areas to become homeowners. MBA is concerned, however, about the sliding scale nature of the new formula and its impact on veterans purchasing homes in low-cost areas, where the amount of the guaranty will be lower than it was under the previous formula. MBA will monitor this situation and report to the Subcommittee if problems arise.

It is too soon to measure whether the provision in P.L. 100-198 requiring financial counseling to defaulting borrowers has any impact. There is no evidence that financial counseling has been successful to the point of reducing foreclosures.

The Rice Center Proposal

The Rice Center Study on an interest rate subsidy and refinancing program was performed by Dr. James P. Gaines of the Rice Center, a community research corporation in Houston, Texas. This was the result of a field hearing held in Houston on July 31, 1987, by the House VA Housing Subcommittee on the foreclosure crisis in the VA home loan program in that area. The Study analyzes the cost effectiveness of a proposal to have the VA temporarily subsidize interest payments on defaulted VA home loan rather than foreclose on them.

The loan would be temporarily refinanced for up to 48 months at an interest rate as low as 4 percent if the veteran was able to make the mortgage payments and keep the loan current. The difference in the payments between the original interest rate and the refinanced lower rate would be paid by the VA to the holder of the loan. The amount of the subsidy would accrue to a separate account that the veteran would pay to the VA at some time in the future. The interest subsidy would ensure that Government National Mortgage Association (GNMA) investors received the proper yield on their investment in the mortgage-backed securities and would, in fact, temporarily reduce the risk of prepayment faced by the GNMA investor.

The proposal suggests that the delinquent payments could be handled in one of three ways: (1) added to the loan amount; (2) set aside in a separate capital account; or (3) the lender servicer could make up to three months of back payments to keep the loan current.

The first option would not be feasible because of secondary mortgage market constraints. Adding the delinquent payments to the loan amount would be a modification of the loan and would make it ineligible for a Government National Mortgage Association (GNMA) mortgage pool.

Because lenders currently make payments to GNMA investors even though the loan is in default, the third option should be combined with the second option. The amount paid to the investor by the lender on behalf of the veteran borrower could be set up in a separate account to be paid by the veteran at some time in the future. It should be covered by the VA guaranty as long as it does not exceed the original loan amount that was guaranteed by the VA.

The Rice Center proposal is not explicit about whether these two separate loans, the one to the lender for arrearages and the one to the VA for the interest subsidy, would be liens against the real property.

The study compares the cost of interest subsidies by the VA for veteran-borrowers with the actual losses reported by the Houston VA Regional Office on their foreclosure sales for the first 10 months of Fiscal Year 1987. With an average loss of $23,494, per property, the VA's total net loss on the sale of properties between October 1986 and July 31, 1987, was more then $64 million. This figure does not include guaranty payments made on no-bid properties. If the 2,730 foreclosed properties sold by the VA had been refinanced and subsidized instead, the VA's expenditures would have ranged from $8.5 million (refinanced at 9 percent for 24 months) to $41.9 million (refinanced at 4 percent for 48 months), much less than the VA's $64 million loss. This assumes an average loan amount of $58,000 at an average interest rate of 12 percent for 30 years.

The interest subsidy necessary to refinance the average VA loan ranges from a low of $3,118 for 24 months at a 9 percent rate to a high of $15,346 for 48 months at a 4 percent rate. This compares favorably with the average reported loss of $23,494 per property.

While these figures show a cost saving for the VA on the 2,730 loans that were foreclosed, it cannot be assumed that every veteran would have been a good candidate for the interest subsidy program. There would have been a percentage of veterans who would not have been eligible so their loans would have been foreclosed in any event.

In addition, it cannot be assumed that all veterans who participate in the program would have avoided foreclosure. There would have been a percentage of veterans whose loans would have been foreclosed after the subsidy terminated. In these cases the veteran's debt would include the capital accounts for arrearages and interest subsidies and would be greater than it was before participation in the program, thereby adding more to the VA's loss on the property.

Finally, a key variable in the study is the amount of the VA loss on each property. The interest subsidy proposal is a cost savings only where the VA loses more on the foreclosure than it pays out in interest subsidies. If the losses on the foreclosures decline, then the proposal loses its attraction.

MBA believes that the Rice Center Proposal is a creative program for solving some of the problems faced by all of the participants in the VA home loan guaranty program.

However, it requires more analysis and the number of loans for which foreclosure could be avoided in the future would need to be estimated by a method that could be relied upon with some certainty.

MBA appreciates the opportunity to testify before this Subcommittee and would be happy to answer questions or provide additional information for the hearing record.

Statement of the NATIONAL ASSOCIATION OF HOME BUILDERS before the

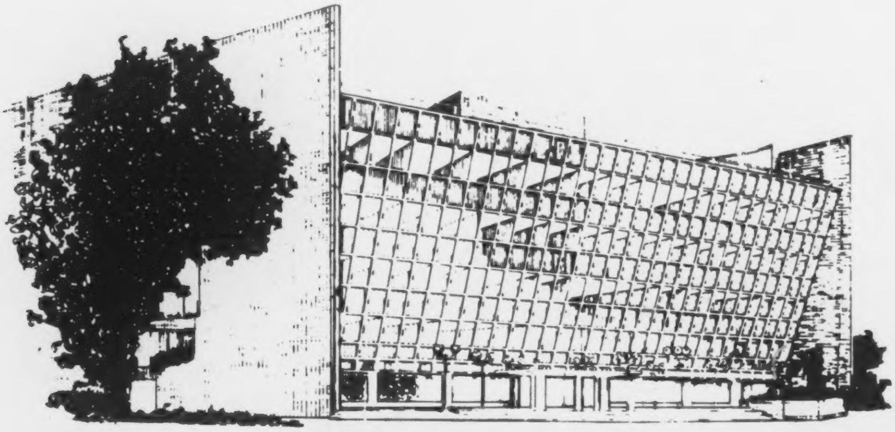
Committee: U.S. House of Representatives
Veterans' Affairs Committee
Subcommittee on Housing & Memorial Affairs

Subject: Oversight of the Veterans' Home
Loan Improvements Act of 1987 (P.L. 100-198)

Witness: Shirley McVay Wiseman
First Vice President

Date: September 7, 1988

Place: Cannon House Office Building
Room 340



National Housing Center
15th and M Streets, N.W.
Washington, D.C. 20005
(202) 822-0470

THE NATIONAL ASSOCIATION OF HOME BUILDERS

The National Association of Home Builders (NAHB) represents more than 155,000 member firms located in every state of the U.S., the District of Columbia and Puerto Rico. NAHB member firms employ over 8 million persons and can be found in every type of community across the nation, representing rural and urban interests. The cohesiveness of the organization is maintained through a network of 780 local and 43 state affiliated associations.

While the association was founded to represent the small home builder, it has expanded through the years to include the diversified builder. Currently the average builder member participates in 2 or more different types of building activities, which include remodeling, commercial and industrial building, and single and multifamily housing.

HOUSING AND THE ECONOMY

Housing is one of the key indicators of the health and vitality of the nation's economy and the industry itself is one of the largest contributors to the country's economic system.

In 1987 alone, the value of all new housing totaled $139.6 billion, resulting in an estimated 2.4 million man years of direct employment. Those housing starts, numbering 1.617 million, represent a tax contribution to local governments of $1.5 billion. During the same period, housing and housing-related industries contributed approximately $228.5 billion to America's economy - which translates to about 5% of the gross national product (GNP).

The housing industry also plays an important role in the economic stability of many other industries, including real estate, architecture, banking institutions, housing manufacturers and the myriad of housing supply industries. For this reason, the ripple effect of the housing industry on the nation's economy is substantial.

STATEMENT OF
THE NATIONAL ASSOCIATION OF HOME BUILDERS
before the
COMMITTEE ON VETERANS AFFAIRS
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
on
OVERSIGHT OF THE VETERANS HOME LOAN IMPROVEMENTS ACT OF 1987 (P.L. 100-198)

September 7, 1988

Madam Chairwoman and Members of the Subcommittee:

My name is Shirley McVay Wiseman and I am First Vice President of the 155,000 member National Association of Home Builders. I am from Lexington, Kentucky and have been involved in both FHA and VA housing programs for a number of years. I have served as an Assistant Secretary at HUD and as FHA Commissioner.

Madam Chairwoman, it is a pleasure to appear before you. I am pleased to present our views on the Veterans Home Loan Improvements and Property Rehabilitation Act of 1987 (P.L. 100-198). I am also pleased to have this opportunity to comment on the Rice Center proposal to reduce foreclosures by providing temporary loan refinancing with an interest payment supplement.

OVERSIGHT OF THE 1987 VA HOUSING ACT

Madam Chairwoman, we appreciate your leadership role in passing the 1987 Veterans Housing Act. Your efforts and those of the Subcommittee were very helpful to update and streamline the VA Home Loan Guaranty Program.

While it is premature to assess the impact of all the changes made in the 1987 VA law, we support the action taken by Congress in passing the most comprehensive bill to improve the Home Loan Program since its inception in 1944.

Key among the program improvements which we supported were an increase in the loan guaranty amount in high cost areas, exemption from the sequestration provisions of the Deficit Reduction Act, direct review of appraisals by automatic lenders, liberalization of refinancing restrictions, use of state data for residual income purposes, a downpayment on mobile homes and mandatory underwriting on assumptions.

We commend your action on these proposals which make it possible to maintain the VA Home Loan Guaranty Program as an important part of the housing finance system.

1987 VA Housing Act Concerns

Madam Chairwoman, while we are pleased with many of the actions taken in the 1987 VA Housing Act, I would like to take this opportunity to express our reservations concerning the reduction of the VA Home Loan Guaranty amount at the lower end of the scale. Problems surrounding regulations which implement the direct review of appraisal legislation are also of concern. Additionally, we would like to comment in support of an adjustable rate mortgage (ARM) for veteran buyers, which was dropped in final deliberations of the conference.

Loan Guaranty Amount

Under last year's legislation the loan guaranty amount was changed. Loans went from 60 percent of the loan amount up to $27,500 to just 50% on loans below $45,000. For loans over $45,000 the guaranty was changed to 40% of the loan amount up to $36,000.

We are concerned that last year's legislation reduces the loan guaranty amount which a veteran may receive at the lower end of the scale when he initially uses his entitlement. For example, on a $55,000 loan the veteran previously was allowed a guaranty of $27,500, but under the new formula he is limited to $22,500, a $5,000 decrease. If the guaranty amount were raised to 60% of the loan amount, or $36,000, which is the same as the Senate passed VA Housing Bill last year, the veteran would receive a guaranty amount of $33,000 (Attachment A).

We hope that Congress will continue to monitor and assess the impact of the new formula on the lower end of the market so that these veterans will not be denied homeownership opportunities.

Direct Approval of Appraisal Regulations

Madam Chairwoman, the National Association of Home Builders appreciates the partnership which we have established with the Veterans' Administration. We have worked well together to solve problems facing the housing industry. In this regard, we urge prompt implementation of last year's VA Housing Bill which provides for direct approval of appraisals by VA lenders. Timely appraisals of property are critical in the new home market and this legislation would substantially shorten the time involved to process VA loans. We have been informed by the VA, however, that its regulations will only apply to existing housing and that regulations for new construction will be delayed.

Our Board of Directors passed policy endorsing the immediate adoption of direct approval of appraisals by the VA. We urge you to seek immediate implementation of this program for new construction as well as existing homes which will be of particular benefit to new homebuying veterans in the marketplace.

Adjustable Rate Mortgage (ARM)

Madam Chairwoman, NAHB urges the Congress to support an adjustable rate mortgage (ARM) for VA homebuyers. We thank you for your effective leadership in passing a pilot program for an ARM in the House of Representatives last year. We regret that this valuable mortgage instrument was dropped in conference when the VA Housing Bill passed last December.

As you are aware, the Housing Task Force report, "A Decent Place to Live" recommends updating the VA program to include an adjustable rate mortgage. The report emphasizes that an ARM is necessary to make the program fully responsive to market developments.

The Task Force recommended that the government should increase access to FHA mortgage insurance and the VA program. It stresses that, "mortgages with low downpayments are essential for an increasing number of home buyers, particularly first-time purchasers. Conventional lenders cannot and should not be expected to carry the risk burden of such loans; nor will private mortgage insurers fill the gap."

An adjustable rate mortgage is a very helpful mortgage instrument, since it could save a veteran about $100 a month on the average VA loan. It also enables more veterans to qualify in times of high interest rates, as well as allowing veterans a rate decrease without refinancing. We urge the Congress to support authorization for the VA to offer this type of mortgage instrument, since the VA is the only major market participant without an ARM. A VA ARM is necessary to modernize the VA Home Loan Guaranty Program and to bring it into 20th century market developments.

NAHB would be willing to work with the VA to develop information about the performance of ARMs to address the concerns of veterans groups about the safety and soundness of an adjustable rate mortgage.

Other Concerns

Madam Chairwoman, I would like to take this opportunity to express our appreciation for the Subcommittee's efforts in rejecting a negotiated interest rate for VA buyers and federal credit reform legislation. Both of these proposals were submitted by the Administration in its FY'89 budget.

We are also concerned that this Subcommittee is considering sweeping changes without the benefit of a comprehensive review of the program's strengths and weaknesses. In this regard, we oppose the provisions in H.R. 5221 which create a loan indemnification program. As we wrote to you prior to the markup and hearing today, such sweeping changes need greater study.

We urge you to create an Independent Commission to look into these and other issues of importance to the VA Home Loan Guaranty Program.

RICE CENTER PROPOSAL

Madam Chairwoman, the Rice Center proposes to help veterans to stay in their homes as an alternative to foreclosure on a delinquent loan. This proposal allows for temporary restructuring of a veteran's payments for up to 24, 36 or 48 months with an interest rate as low as 4 percent.

Under the Rice Center proposal delinquent payments would be capitalized and added to the loan amount or set aside in a separate capital account. The amount of the VA interest subsidy would be part of a separate account for which the borrower would sign a promissory note for repayment under the veteran's liability obligation to the VA.

The borrower would not be required to repay the second note until the house is sold or the original mortgage is repayed. The separate capital account would accrue no interest.

We support the Rice Center proposal for the following reasons:

1) It assists veterans to keep their homes. This is particularly helpful in depressed markets where auctions and other property disposition practices have lowered home values and destabilized the marketplace. It stems the growth of real estate owned properties obtained through foreclosure and helps veterans in a more appropriate way.
2) It costs less than foreclosure. According to the Rice Center proposal the average loss on a foreclosed loan in the Houston area is $23,494. Even under the Rice Center's worst case scenario on a 4% loan for 48 months the cost is only $15,346 a $8,148 savings. This is only 65 percent of the cost of disposing of the property when foreclosure occurs.
3) It allows veterans to maintain their credit rating. The "stigma" of foreclosure is alleviated.

CONCLUSION

While there are many aspects of last year's VA Housing Bill we support, in looking to the future we urge Congress to maintain the entitlement nature of the VA Home Loan Program. We believe it is essential that Congress appoint an Independent Commission to evaluate the effectiveness of the Loan Guaranty Program. We also urge Congress to modernize and expand the VA program to include an adjustable rate mortgage. We support timely implementation of regulations which will speed up the processing of loans such as direct review of appraisals for new homes. And finally, it is important to assist veterans to keep their homes as an alternative to foreclosure.

Congress must continue the responsibility of providing assistance to veterans so that they will have opportunity to obtain affordable housing.

Thank you for allowing us to present our views. I would be pleased to respond to any questions you may have.

ATTACHMENT A

LOAN AMOUNT	60% up to $27,500 (Past Law)	40% up to $36,000 on loans above $45,000 with a $22,500 floor or 50% on loans of $45,000 and below (P.L. 100-198)	60% up to $36,000 (1987 Senate Bill S.9 S.1801)
$ 144,000*	$ 27,500	$ 36,000	$ 36,000
$ 135,000	$ 27,500	$ 36,000	$ 36,000
$ 125,000	$ 27,500	$ 36,000	$ 36,000
$ 115,000	$ 27,500	$ 36,000	$ 36,000
$ 105,000	$ 27,500	$ 36,000	$ 36,000
$ 95,000	$ 27,500	$ 36,000	$ 36,000
$ 85,000	$ 27,500	$ 34,000	$ 36,000
$ 75,000	$ 27,500	$ 30,000	$ 36,000
$ 65,000	$ 27,500	$ 26,000	$ 36,000
$ 55,000	$ 27,500	$ 22,500	$ 33,000
$ 45,000	$ 27,000	$ 22,500	$ 27,000
$ 35,000	$ 21,000	$ 17,500	$ 21,000
$ 25,000	$ 15,000	$ 12,500	$ 15,000

* GNMA generally limits eligible securities to four times the loan guaranty amount ($36,000 x 4 = $144,000)

Source: Compiled by the National Association of Home Builders, Government Affairs Division

STATEMENT OF
DONALD E. KELLY
DIRECTOR OF WASHINGTON OPERATIONS
SOCIETY OF REAL ESTATE APPRAISERS
BEFORE THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
HOUSE VETERANS AFFAIRS COMMITTEE

September 7, 1988
Washington, DC

Thank you Madam Chairwoman, and Members of the Subcommittee. My name is Donald E. Kelly and I am Director of Washington Operations for the Society of Real Estate Appraisers.

I appreciate the opportunity to be here today to discuss the effects and implementation of the appraisal section of Public Law 100-198, the Veterans Home Loan Improvements and Property Rehabilitation Act of 1987.

Since the Society is not new to the Subcommittee, I will just briefly introduce our group to those Members who may not be familiar with us. The Society was founded in 1935 as an independent, voluntary membership organization and continues as such today. The need for uniform standards of appraisal procedures and formalized appraisal training arose during the chaotic period of the depression when foreclosures were common and there was little market against which housing prices could be compared. Members of the newly formed Society of Real Estate Appraisers created the standards of a new profession.

The current goals of the Society are to elevate further the standards in real estate appraising and analysis, to aid in the solution of problems the profession faces in appraising and analyzing real estate, and to designate our members who have attained demonstrable skills and knowledge. These goals ultimately benefit the consumers and users of appraisal services.

Activities of the Society of Real Estate Appraisers in Response to Problems Confronting the Appraisal Profession

The Society has consistently supported the work of those who attempt to raise and maintain high standards for the appraisal profession. The appraisal provisions in the new law, now before this Subcommittee, help to raise standards for real estate appraisals. In the past, we have been acutely sensitive to the findings by another House Subcommittee on the failures in the domestic banking and thrift industries in recent years as well as losses suffered by the VA mortgage insurors and other Federal agencies and programs. Recognizing that appraisers share in the responsibility for these problems, together with lenders, regulators and others, the Society has taken positive action.

The Society has responded to those concerns by assuming a positive leadership role in the establishment of the Ad Hoc Committee on Uniform Standards of Professional Appraisal Practice, a group comprised of the nine major North American appraisal organizations. In 1987, this industry-wide effort produced the Uniform Standards of Professional Appraisal Practice for the profession now recognized as the industry-wide uniform standards. The Society was the first appraisal organization to adopt the Uniform Standards that are now adhered by all members of the eight appraisal organizations in the Appraisal Foundation.

I will take a few minutes now to discuss the Appraisal Foundation. Last year, the Society again joined with the major industry organizations to establish the Appraisal Foundation ("The Foundation"). The Foundation is an educational, not-for-profit corporation made up of eight (8) professional appraisal organizations. The Foundation functions as the parent entity for the Appraisal Standards Board and the Appraiser Qualifications Board. These Boards and the Foundation will form the nucleus for an appraisal profession self-regulatory organization. The Foundation has been created from within the industry. It represents an alliance of many points of view.

The Foundation provides appraisers with a mechanism for establishing an industry consensus on appropriate appraisal standards and qualification requirements. The Foundation is structured to accommodate the broad cross-section of appraisal disciplines and appraiser representation. It also has significant industry-related participation. The Foundation is designed to act as the critical linkage among appraisers, users of appraisal services, and regulators. There is legislation now moving through Congress that would set up a regulatory scheme for the appraisal industry. The Bill, introduced by Congressman Doug Barnard as a response to problems his Subcommittee investigation uncovered, provides for the eventual transition from federal regulation to industry self-regulation. We are proud that the legislation utilizes the Foundation as the source for developing appraisal standards and qualifications.

Reform for the Industry

There are a number of different motivations at work behind reforming the appraisal industry. One is the concern over faulty or fraudulent appraisals and their impact on federal programs such as the VA Home Loan Guaranty Program and on banking and thrift institutions. It is thought that required levels of competence and tough qualification standards are the long term answer to that problem. Another motivation is the need to institutionalize the independence of the appraiser, or to balance the competing pressures an appraiser faces when asked to come in with the "right numbers." Adherence to a code of ethics, education, and self-regulatory initiatives are considered to be the solutions for these problems.

The motivation behind the establishment of Uniform Standards and the Appraisal Foundation from the Society's perspective is the concept of professionalism and self-regulation of the profession.

VA Home Loan Guaranty Program

Quality appraisals are essential to the VA Home Loan Guaranty Program. We are very supportive of the changes that have been implemented to improve the VA appraisal process pursuant to the work of this Subcommittee last year. It is, indeed, the direction we want to be moving in this area. The Veterans Home Loan Program Improvements and Property Rehabilitation Act of 1987 (Public Law 100-198), which became law on December 21, 1987, establishes specific qualifications for VA fee-basis appraisers. It requires an appraiser to successfully complete a written test, submit a sample appraisal, provide evidence of an appropriate number of years of experience as an appraiser, and submit recommendations from other appraisers. The new law also requires the VA to establish an appraisal review system to monitor appraisals performed by appraisers and the appraisal determinations made by lenders on a spotcheck basis.

We are satisfied that the VA is properly implementing the new law. The procedures now in place for administering a mandatory written test to appraiser applicants will go far to insure that the VA obtains the services of competent appraisers. The VA's policy of rotational appraisal assignments, preference to professional designations in the competitive selection process, and adherence to state certification laws, where applicable, will also help insure a more consistent result. The Society continues to work with the VA on appraisal issues and we are proud of our long term working relationship. At this juncture, I have two suggestions to make.

Since consistency of standards and qualifications are important concerns, I suggest that the VA work with the Appraisal Foundation and the Appraiser Qualifications Board. Since the Foundation is fast becoming the primary source of appraisal standards and appraiser qualifications for the profession, it can have an important role in the development of additional qualification criteria for VA appraisers. The industry must be involved in drafting standards and qualification criteria. Through use of uniform industry standards, the VA can be better assured that VA loans are properly supported.

The second suggestion is to recommend the widespread use of the Uniform Standards of Professional Appraisal Practice and urge their endorsement as the fundamental criteria for the VA to follow. The Uniform Standards which currently exist should be the basis for any additional standards promulgated by the VA.

The real estate appraisal profession is in a period of dramatic change. Responsible, professional appraisers such as the members of the Society are committed to the professionalism the future demands. We are confident that the efforts underway both legislatively and privately will result in benefits for the profession and all those who rely upon appraisal services.

The sensible and rewarding partnership of the private and public sector is critical to programs such as the VA Home Loan Guaranty Program. The commitment to quality and integrity has served the interests of members of the Society well. This commitment will continue in the future.

I would be happy to respond to any questions you may have.

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